

FINANCIAL TIMES



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World Business Newspaper

WEDNESDAY JANUARY 31 1996

Brussels plan to vet mergers faces hostile reception

Controversial plans by the European Commission to extend its control over the vetting of company mergers are likely to get a rough reception from member states when they are unveiled today.

Brussels officials believe too many mergers affecting the EU's single market fall outside the scope of the Commission's merger taskforce. Page 14; Dispute at EU over contract tendering, Page 3

Chance of US rate cut is lifted Unexpectedly weak economic data on consumer confidence and sales increased the chance of an early cut in US interest rates rose raised. The figures were released as the Federal Reserve began a two-day strategy meeting. Page 14; World stocks, Page 36

Electrolux, the Swedish company that is world's biggest maker of household appliances, painted a gloomy picture about its prospects in the first half of 1996, saying consumer confidence remained fragile in its main markets. Page 15

UK spending cuts opposed UK chancellor of the exchequer Kenneth Clarke warned against big long-term cuts in state spending and any pre-election commitment to a referendum on a European single currency. Page 9; Hurd interview, Page 13

RJR Nabisco, US tobacco and food group under pressure to spin off its food business, marked the end of a poor year for profits growth by reporting fourth-quarter net earnings of just \$33m, against the comparable period's \$29m. Page 17

Chirac to push for nuclear test ban treaty

President Jacques Chirac (left) is due to fly to Washington today hoping to put behind him the diplomatic damage caused by French nuclear tests in the Pacific and present a more constructive image of his country's security policy. He will reaffirm his keenness for an early comprehensive test ban treaty and discuss with President Bill Clinton the implications of France's new-found willingness to co-operate more closely with Nato. Page 3

Apple Computer Shares in the struggling personal computer company fell sharply as investors' hopes of an imminent takeover bid faded. Rumoured talks with Sun Microsystems, leading computer workstation manufacturer, are believed to have ended without agreement. Page 17

Bouygues, French conglomerate, revealed big provisions for its industrial holding, telecoms and property businesses, forcing it into losses of about FF8bn (\$780m) for 1995. Page 16

Chernomyrdin favoured Russia's liberals, who feel betrayed by President Boris Yeltsin's lurch towards nationalist hardliners, want Victor Chernomyrdin, the moderate prime minister, to contest June's presidential elections. Page 3

Samsel Goldwyn Negotiations over the future of the debt-laden Los Angeles film company have run into difficulties with the reported withdrawal of a partial offer from PolyGram, a subsidiary of Philips of the Netherlands. Page 17

EU backtracks on human rights European Union states have secretly watered down provisions on human rights and democracy in Turkey which formed an intrinsic part of a €405m (\$442m) aid package for the Ankara government. Page 3

Engineering recovery 'to carry on' The recovery in the world's engineering industries is expected to continue into 1997, according to a United Nations report. Page 4

Boost for Chinese airports China is accelerating the expansion of its airport network to cope with a continuing surge in passenger numbers, but has placed a ceiling on new aircraft orders this year of 27. Page 7

Record jobless rate in Japan Japan's unemployment rate stagnated in December at a record 3.4 per cent, but the government greeted a slight improvement in the labour market as a sign of better times ahead. Page 6

Blast kills miner One miner was killed and eight others were missing after an underground explosion at a gold mine near Carletonville west of Johannesburg, South Africa.

Switching off, dropping out Only 35 per cent of top managers at big companies rate the Internet as an effective business tool, according to a survey for the International Visual Communication Association and Japanese electronics giant Sony.

STOCK MARKET INDICES	
New York	10,283.63 (+48.05)
Dow Jones Ind. Av.	2,923.63 (+48.05)
NASDAQ Composite	1,048.86 (+7.07)
Europe and Far East	
CAC40	2,993.13 (+22.49)
DAI	2,428.79 (+10.26)
FT-SE 100	2,726.3 (+0.7)
Nikkei	20,722.44 (+133.24)

US LIGHTNING RATES	
Federal Funds	5 1/2%
3-month Treasury Bill	5.11%
Long Bond	11 1/2%
Yield	6.02%

OTHER RATES	
UK 3-month Bankrate	6 1/4%
UK 10 yr Govt	10.7%
France 10 yr Govt	10.5%
Germany 10 yr Bond	10.0%
Japan 10 yr Govt	7.14%

NORTH SEA OIL (Average)	
Brent 15-day (bar)	\$18.30 (16.02)
Tokyo \$ close	¥108.8

GOLD	
DM	1,488.05 (1,485.0)
London	close \$482.2 (406.2)

DOLLAR	
DM	1.48805
FF	5.116
SFr	1.21288
Y	107.225

STERLING	
DM	2.2412 (2.2409)
Yield	¥108.8

CURRENCIES	
Atlanta	LEK200
Austria	Sc207
Bahrain	Dm1200
Belgium	Fr276
Canada	US\$100
Cyprus	Cy210
Czech Rep	1000 local
Denmark	Dkr16
Egypt	E£2.00
France	Fr65
Germany	DM100
Greece	Dr100
India	Rs100
Italy	Lira1000
Japan	Y100
South Korea	W\$100
Spain	Ptas100
Sweden	Skr100
Switzerland	Sfr100
Taiwan	N\$100
UK	£100
USA	\$100

Unions oppose public sector staff cuts ■ Rexrodt sees boost for jobs

German 'action plan' under fire

By Peter Norman and Judy Dempsey in Bonn and Andrew Jack in Paris

The German government's long-awaited 50-point "action programme" to boost growth and jobs was criticised yesterday by trade unions and met a lukewarm response from industry.

Unveiling the package, Mr Günter Rexrodt, economics minister, said supply side reforms to improve conditions for investment and employment were at the heart of measures to halve Germany's 4m jobless total by the end of this decade.

In a "co-ordinated action", Germany finished its package of measures on the same day the French government announced steps to boost demand.

The Bonn plan, approved by the cabinet yesterday, set out to encourage entrepreneurship and business start-ups and reduce public spending's share of gross domestic product from just over 50 per cent to 46 per cent by 2000.

Mr Rexrodt, who headed the cabinet committee that drew up the Bonn government programme, described the measures as "a vitamin shot to bolster inherent strengths" in the German economy which is facing low growth and rising unemployment this year.

However, trade unions made clear their opposition to proposed reductions in public sector personnel while officials in German states indicated they were unhappy over planned cuts in local business taxes.

Mr Rexrodt said that while some of the measures were tough, there was no intention to dismantle the country's social security system. The plan included measures to ease the taxation burden on business, promote deregulation and privatisation, lower subsidies, encourage investment funds and venture capital and strengthen research and development.

In spite of growing doubts elsewhere in Europe, Chancellor Helmut Kohl's government also strongly reaffirmed its support for European integration and starting economic and monetary union in line with the Maastricht treaty timetable on January 1 1999.

Giving the German programme an added European flavour, Mr Theo Waigel, finance minister, disclosed that Bonn's plans had been discussed with the French government on Monday before being unveiled yesterday.



Günter Rexrodt (right), Theo Waigel (centre) and Labour minister Norbert Blum unveil the 50-point plan to boost growth yesterday. Picture: Reuters

Mr Jean Arthuis, French finance and economics minister, said Germany and France had discussed their measures and the two countries agreed that their problems arose from "a pause in the growth cycle. Activity should return in the two countries in a stronger way during the second half of 1996."

The French measures were aimed at boosting consumption, cutting interest rates and helping the construction and public works sector of the economy.

One of the most important gestures was the first reduction for 10 years in the tax-free interest rate offered on the "Livret A", a key tax-free national savings

product the proceeds of which are used to fund the construction of low-income housing, by 1 percentage point cent to 3.5 per cent.

The announcement was followed by a concerted move to cut base rates by 0.5 of a percentage point to 7 per cent among the

country's commercial banks, which had become increasingly critical at the unchanged Livret A rate as the returns on other investment products fell.

Other measures, such as a change in the rules governing early retirement to safeguard the financing of Germany's "pay as you go" pension system, have still to be clarified in talks between the government, employers and trade unions.

Financial markets were apparently unmoved by the package. The Dax stock market index in Frankfurt finished slightly lower, while the dollar closed at DM1.4899 in London, compared with DM1.4859.

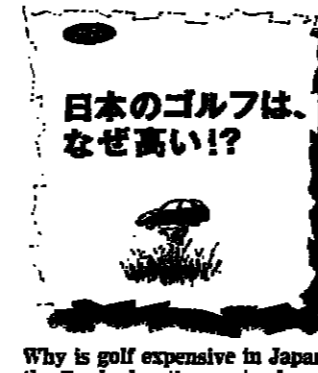
Ford infuriates rivals with Japanese adverts

By Michiyo Nakamoto in Tokyo

Ford, the US car manufacturer, has provoked an unseemly spat with its European competitors in consensus-conscious Japan by taking out advertisements in many newspapers suggesting that rival vehicles are overpriced.

"Why is golf expensive in Japan?" Ford asks in an advertisement featuring the popular Volkswagen Golf perched on a golf tee. Ford admits that the play on words is intended to suggest that the price of a Volkswagen Golf is as high-priced as playing golf in a country with famously expensive green fees.

European manufacturers have missed the joke. "It's absolutely infuriating," said one. "Ford has only just started to invest in the Japanese market while European car companies and other US companies have worked hard to develop the market. And here somebody comes in at the last moment and throws that at us."



Why is golf expensive in Japan? The Ford advertisement asks

Another competitor said the Ford campaign was "a classic latecomer's" strategy. "Ford is trying to create a differentiation through price because they have been unable to establish a quality image in the mind of the Japanese consumer."

Several European car companies are considering a formal complaint to Japan's Fair Trade

Commission on the grounds that the advertisements contain inaccurate information. But Ford plans further attacks.

According to the Ford advertisements, European cars, such as the Golf, allegedly cost more in Japan than in Europe. The Golf, according to Ford, is ranked in the lower-medium class of cars but in Japan costs more than the Ford Mondeo, which is one rank above it in the medium class.

The Ford Mondeo "is the first European car to be introduced into the Japanese market at the same price as it sells in Europe... Ford is different from those European manufacturers who suddenly put up their prices when they sell their cars in Japan", the advertisement says.

Volkswagen in Japan said the price comparisons did not take into account the differences in equipment offered. In Germany, air conditioners, airbags and an anti-lock braking system were not necessarily

included in all cars, it said. The squabble reflects the increasingly fierce competition between importers in Japan.

Imported vehicle registrations in Japan rose for the third consecutive year and reached a record 388,162 units last year, with car imports up 31 per cent to a 10 per cent share of the market.

The Volkswagen Golf is a favourite among fashion-conscious Japanese consumers and has been notably successful. Last year, registrations rose 32 per cent to 27,028, giving Volkswagen 10 per cent of the imported car market.

US-made Ford registrations climbed 21 per cent and the Mondeo rose over 170 per cent. However, at 6,418 units, it still lagged far behind the Golf.

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France unveils measures to reinvigorate economy... Page 2

Hidden champions take a bow... Page 12

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Murdoch loses bidding for Olympic television rights

By Raymond Snoddy

The television viewers of Europe will be able to watch the summer and winter Olympic Games on terrestrial "free" television at least until 2008.

The International Olympic Committee said yesterday it had agreed a \$1.442bn (£900m) deal with the European Broadcasting Union, the body that represents the public broadcasting of Europe, North Africa and the Middle East.

In addition a "profit-sharing" sum is to be added to the total payment. The deal with the EBU, which has held the European broadcasting rights to the Olympic Games since the Rome Olympics of 1960, effectively shuts out Mr Rupert Murdoch's News Corp-

oration until at least 2010. A bid signed by Mr Sam Chisholm, chief executive of British Sky Broadcasting, the satellite television venture, and underwritten by News Corporation earlier this month, offered \$2bn for the European Olympic broadcasting rights up to the year 2008.

The IOC has already sold US and Australian rights up to the year 2006 to NBC, the US network company, and The Seven Network of Australia.

It is the first time that broadcasting rights have been sold so far in advance. News Corporation yesterday accepted the decision of the International Olympic Committee. Mr Murdoch will not try to challenge the decision under European Union competition law.

"News Corporation respects the

right of any sports body to select the broadcaster of its choice. Rights-holders are well able to make their own decisions with regard to the relative merits of financial bids and the extent and the quality of the coverage," the company said.

The effect of the \$2bn Murdoch bid has almost certainly been to push up the amount the EBU has had to pay to gain the rights. The European broadcasting rights to the Sydney Olympics in 2000 will cost the EBU \$350m and the 2002 Winter Olympic Games in Salt Lake City \$150m.

It is believed the original EBU bid for Sydney was \$280m and that \$20m had to be added to the Salt Lake City bid.

The EBU said yesterday that

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A SAUNA MANUFACTURER WHO WANTS TO WORK UNDER HIS OWN STEAM?

NO SWEAT.

CInVen / INDEPENDENT / VISION

سكنا من الاصلي

NEWS: EUROPE

More questions than answers in 'action programme' for investment and jobs

German package fails to excite

By Peter Norman in Bonn

At first glance, yesterday's 50-point "action programme for investment and jobs" agreed by the cabinet in Bonn appears quite impressive. But on closer inspection, it is reminiscent of the many economic stimulation packages announced by successive Japanese governments and many of the proposals have been flagged already. Others still need to be agreed inside the Bonn coalition. Where there has been a clear cabinet decision, many proposals will have to be negotiated - not least with the opposition Social Democrat party (SPD) which controls the Bundesrat, the upper house of parliament, representing the Länder (states).

Chancellor Helmut Kohl's government has set the ambitious goal of halving unemployment by the end of the decade. This will be far from easy. Twelve months ago, the government's 1995 economic report forecast a 300,000 fall in unemployment last year - it rose by 231,000 between December 1994 and last month. The official forecast for 1995,

published yesterday, envisages an increase in average unemployment to 3.9m from 3.61m in 1995. A measure of the government's difficulties will come next week when official figures are expected to show Germany's jobsless total topping 4m - more than one in 10 of the labour force. Moreover, the cabinet that agreed yesterday's package is the same body that last year agreed to liberalise shopping hours only to delay implementation until after important state elections in March. This was because of dissent among parliamentarians of Mr Kohl's Christian Democratic Union. The planned abolition next January 1 of the local trading capital tax - a levy which Mr Theo Waigel, the finance minister, calls a fossil - was in yesterday's package, and had been on the minister's agenda last year. He failed to eliminate the levy at the beginning of this year because of SPD opposition in the Bundesrat. The Social Democrats have signalled opposition to the plan, announced on Monday, to reduce from the middle of next year the solidarity surcharge - a levy on income taxes to help

WHAT FUTURE HOLDS: KEY FORECASTS FOR 1996

% change in real terms on previous year	1994	1995	1996
Gross domestic product	2.9	1.9	1.5
of which:			
Western Germany	2.4	1.5	1.0
Eastern Germany	8.5	6.3	4 to 6
Domestic demand	2.9	1.8	1.5
Private consumption	0.9	1.3	2.0
State spending	1.2	2.0	1.5 to 2.5
Investment	4.3	1.8	-1 to 1
of which:			
Corporate	0.7	1.3	2 to 3
Household	13.1	3.7	-3.5 to -4.5
State	-0.8	-1.5	0 to -2
Exports	7.5	3.7	3.5 to 4.5
Imports	7.1	3.1	3 to 4
Consumer price inflation	2.8	2.0	2.0
GDP deflator	2.3	2.2	2.0
Unemployment rate (% of labour force)	9.6	9.4	10
Average unemployed (thousands)	3,696	3,672	3,900
Public sector deficit (DMbn)	88.8	123.6	125 to 135
Public sector deficit (as % of GDP)	2.6	3.6	3.5

Unions otherwise stated, changes are increases unless marked with a minus sign. Source: Annual Economic Report 1995, Federal Economics Ministry, Bonn.

state premiers and finance ministers. The planned cut to 5.5 per cent from 7.5 per cent will require the states to meet DM3bn (€1.3bn) of the expected DM3bn cost next year. Nor were the protesters con-

vinced by the opposition SPD. Bavarian state politicians from Mr Waigel's own Christian Social Union were yesterday critical of the compromise. While the SPD's ability to block a significant portion of government legislation means that much of yesterday's package will be subject to negotiation, other parts still have to be clarified or negotiated within the coalition or with other involved groups. Tax incentives flagged in yesterday's package to encourage the establishment of new companies have still to be worked out among experts and with representatives of the main business lobbies. However, Mr Waigel yesterday insisted that there were no differences among coalition politicians on this issue. More worrying was the absence yesterday of a clear plan for curbing early retirement, which has crippled the finances of the Federal Labour office and the state pension scheme and contributed to Germany's very high non-wage labour costs. This difficult issue is due for discussion on February 12 in the latest of a series of meet-

ings between Chancellor Kohl, his leading ministers and representatives of the employers and trade unions. With key elements of the government's strategy for curbing non-wage labour costs still obscure, it is difficult to judge how far trade unions and employers will eventually support the package. The government has invested much hope in the "alliance for jobs", initially proposed by Mr Klaus Zwickel, the head of the powerful IG Metall trade union, and its promise of new jobs in return for wage restraint. This, Mr Günter Rexrodt, the economics minister, said yesterday, was an "incredibly important step". However, reactions from the trade unions to yesterday's package were anything but encouraging while the employment were lukewarm. The 50-point programme raises as many questions as it provides answers. The fear must be that its publication will mark the beginning of months of trench warfare rather than serve, as Mr Rexrodt hopes, as a signal that will boost business confidence, investment and employment.

EUROPEAN NEWS DIGEST

New premier for Bosnia

Bosnia's prime minister, Mr Haris Silajdzic, left the government yesterday after months of battling with the ruling Social Democratic Action party (SDA). His successor, Mr Hasan Muratovic, minister in charge of United Nations relations, was voted in yesterday. Mr Muratovic who will lead an interim government until elections later this year. The new republican government of Bosnia-Herzegovina has been cut from 12 to five ministries. This was the issue which caused Mr Silajdzic to resign both as premier and from the party. He had wanted the government, which represents the whole of the state and will include a representative of the Serb entity following the elections, to be a central unifying power. The SDA and the leading Croat party, the HDZ, however, have raised the relative political importance of the Bosnian-Croat Federation government, which they jointly dominate, by voting to scale down the republican government. Mr Silajdzic is expected to form his own party. *Harriet Martin, Sarajevo*

Stand-off over Aegean island

Warships from Turkey and Greece yesterday warily circled the 4 hectare east Aegean island of Imia, which the two Nato members claim. Each demanded the other pull back, but showed no sign of doing so. Ankara summoned the Greek ambassador to demand "the immediate withdrawal of Greek ships" from around the uninhabited island, which lies between the Turkish coast and the Greek island of Kalymnos. Mr Costas Simitis, who took office as Greek prime minister this month, earlier issued a warning that Greece would not hesitate to defend Imia, which Athens says was ceded to Greece by Italy in 1947. The conflict began last week after the captain of a Turkish ship that ran aground on the rock refused to let a Greek tug assist it, saying the territory belonged to Turkey. Since then, Turks and Greeks have planted their own country's flag there, ripping down those of their rivals. *Reuter, London*

New rules for German telecoms

The German cabinet yesterday approved a law to regulate a liberalised telecoms market after 1998. Approval had been delayed by a tussle between two ministers over control of the regulatory authority. Mr Günter Rexrodt, economics minister, has won the argument but was forced to compensate Mr Jürgen Rüttgers, research and technology minister, with control over preparations for the Expo world fair in 2000 and another agency which approves industrial standards. The law receives its first reading in parliament tomorrow and officials in Bonn hope it will be passed by June. Meanwhile, the monopoly commission urged the government to press ahead with full-scale privatisation of the electricity utilities which are hoping to become leading telecoms operators. The commission said competition in the German telecoms market would only be effective if companies such as RWE, Vebe and Viag no longer had regional electricity monopolies. *Michael Lindemann, Bonn*

Conductor quits in culture clash

Mr Gerd Albrecht, the German chief conductor of the Czech Philharmonic Orchestra, resigned yesterday after a long and bitter artistic row that became inextricably linked with a recent sharp deterioration in Czech-German relations. Mr Albrecht was distressed by the Czech cultural establishment for allegedly neglecting works by the Czech composers Smetana, Janáček and Dvořák that are at the heart of the orchestra's repertoire. He also became embroiled in disputes with the culture ministry over money and with President Václav Havel. He struck a further discordant note by accusing Czechs of cultural chauvinism and claiming to be a victim of anti-German feeling. The row became increasingly political at a time when Prague and Bonn are deeply divided over a joint declaration that would finally settle issues lingering from the Nazi occupation of Czechoslovakia and the expulsion of 2.5m Sudeten Germans in 1945. *Vincent Boland, Prague*

Italian newspaper price probe

Italy's anti-trust authority has asked the country's media watchdog commission to investigate whether the daily newspapers are operating a price cartel. Newspaper prices were notionally liberalised in 1988. However, the authority yesterday released a table showing that the first three years of the liberalisation, only one newspaper adopted a different price, the business paper *Il Sole 24 Ore*, and this was in the third year. Even today, the prices are only different in the case of *Sole 24*, and the best-selling sports daily *Corriere dello Sport*, though a new four-page daily broadsheet, *Il Foglio*, was launched at €1,000 (€1 pence) by Mr Giuliano Ferrara, main speech writer for former premier Mr Silvio Berlusconi. Profits have been undermined by steep increases in newspaper costs and ever more burdensome staff overheads in a saturated market. *Robert Graham, Rome*

Berlusconi denial on Mafia cash

Mr Silvio Berlusconi, the former Italian prime minister, yesterday denied before a court in Catania, Sicily, that the Mafia boss in his Fininvest business empire had ever received threats or paid protection money to the Mafia. He was a witness at a trial at which the public prosecutor claimed all the other big stores in the city had paid protection money. Standa's main store in Catania suffered an arson attack in January 1990 causing L14bn (€6m) of damage. Subsequently a Catania Mafia member claimed the attack was designed to force Standa to pay protection money and buy foodstuffs from Mafia-controlled companies. The same person also alleged a Berlusconi aide had met the dominant Santapaola clan - a claim denied by Fininvest. *Robert Graham*

ECONOMIC WATCH

Sweden lowers its repo rate

Sweden's central bank yesterday cut its key repurchase rate for the second time this month to 8.45 per cent from 8.66 per cent. The cut underscored a looser monetary policy by the Riksbank as worries about slower growth have supplanted concerns about inflation pressures. Economic growth this year is now expected to fall below 2 per cent, compared with 3.5 per cent in 1995. The reduction in the repo rate from 8.91 per cent to 8.66 per cent earlier this month was the first cut by the Riksbank since August 1994. Publication of proposals earlier this month by Mr Göran Persson, the finance minister and prime minister-in-waiting, for increases in welfare payments, tax rises and extra spending to cut unemployment also upset financial markets still worried by Sweden's high debt levels. But the markets appeared to welcome yesterday's interest rate cut as a positive step. Long-term interest rates fell back and the krona was steady. *Hugh Carnegie, Stockholm*

■ Average unemployment in the Netherlands fell to 638,000 or 8.1 per cent of the workforce in 1995 from 547,000 (8.5 per cent) the year before, according to the central statistics bureau's annual labour market survey.

■ German engineering orders fell 10 per cent in real terms in December from a year earlier, the industry association said. In the final quarter of 1995 orders were 8 per cent lower.

ENCOURAGING ENTREPRENEURS

Moves to help people set up in business

By Judy Dempsey in Bonn

When Mr Günter Rexrodt, the economics minister, stood up yesterday to present the government's package on jobs and investment, the first thing he focused on was how to strengthen the entrepreneurial spirit in Germany. This is an issue close to Mr Rexrodt's heart. He believes Germany's culture of self-reliance, initiative and independence is under-developed - and, as he pointed out, an average of four jobs are created when a new business is set up. These businesses, whether they be the *Handwerk*, the crafts and trades sector, or the *Mittelstand*, Germany's small and medium-sized companies, are still considered the backbone of the country's economy. Mr Rexrodt said they needed the opportunity to find backing from financial institutions. The cabinet agreed that DM1bn (€46m) should be made available as venture capital through banks and other financial institutions. Venture capital is hard to find in Germany, and many medium-sized companies rely entirely on family investment.

The cabinet also proposed that a further DM1bn be made available for companies which are fundamentally competitive but are experiencing temporary liquidity problems. The aim is to provide a kind of safety net in an attempt to make Germans less averse to risk-taking and branching out on their own. Ministers also favour the use of tax breaks to encourage entrepreneurship. Those prepared to take the risk of setting up a company would be given income, trade and company tax concessions over a three-year period, or the possibility of setting off investments

against tax. The government will finalise details during the first quarter of this year. The *Handwerk* would be subject to less red tape and "superfluous" regulations would be scrapped to encourage individuals to set up in business. The government also intends to encourage risk-taking in another form: through reducing subsidies, increasing the number of companies to be privatised, and introducing deregulation, especially in the electricity sector. The uncompetitive coal sector, for example, could have its DM8bn annual subsidies scrapped or sharply reduced after 2000, even though this would probably mean job losses and would be resisted fiercely by the Social Democrats (SPD). However, there are no subsidy cuts proposed for the influential agricultural lobby. Also high on the agenda is deregulation of the electricity and gas industries, where a few large companies enjoy a monopoly in supply and distribution of energy, and charge industrial and domestic households some of the highest energy prices in Europe. The cabinet is anxious to have a draft law on the table early this year despite strong opposition from the sector and the SPD. Some of the country's airports, including Cologne/Bonn and Hamburg, will be privatised and the long-standing plan to sell off Lufthansa, the national airline carrier, will be revived. The remaining 34 state-owned enterprises in east Germany will also be sold off. In addition, the government still hopes to push Länder (states) and municipalities towards contracting out or privatising local services, such as rubbish collection.

LABOUR COSTS

Social welfare bill to be tackled

By Judy Dempsey

A two-pronged strategy aimed at reducing non-wage labour costs and increasing employment was presented yesterday by Mr Norbert Blum, the social affairs minister. Social welfare contributions, shared by employers and employees, are rising this year to 41 per cent of labour costs from about 39 per cent last year, and are considered a significant brake on competitiveness. Mr Blum said the government aimed to cut this below 40 per cent by 2000. But, calling for "evolution, not revolution", he ruled out any radical change to the social welfare system and claimed that the country's expensive pension provision was the best in the world. Even though the contribution by employers and employees to social welfare costs is high, the state pension insurance scheme is running a deficit of DM10bn (€4bn). By the time the younger generation reaches retirement age, there will be no money available to pay their pensions - the ever-increasing ageing population will have emptied the kitty. One proposal floated yesterday was to raise the minimum age - currently 58 - at which people can draw the state pension.

Mr Blum, who believes employers use early retirement to cut labour costs, has said that the 300,000 people who took advantage of it last year cost the social welfare system more than DM66bn - DM36bn in pension contributions forgone and DM30bn in benefits being paid out. On the employment front, Mr Blum seemed moderately optimistic, suggesting that 850,000 jobs could be found in domestic service. But the opposition Social Democrats (SPD) are likely to resist such plans, believing these employees would have no social security or pension rights. Mr Blum also suggested there was an increasing demand for part-time employment.

EASING BURDEN OF TAXATION

Reform of tax system will come in three stages

By Peter Norman

The third step, after the next German general election in 1998, will entail cuts in income and corporation tax rates and reinstatement of the smooth progressive upward path in tax rates that characterised Germany's income and corporation tax systems until the beginning of this year. The third phase tax cuts will be financed by eliminating concessions, broadening the tax base, and by strict public spending control. Mr Waigel yesterday reaffirmed the goal of reducing public spending from just over 50 per cent of gross domestic product to 46 per cent by the year 2000. The government wants to ease the burden of direct taxation gradually. Next year's planned corporate tax reforms include abolition of the *Gewerbesteuer* local trading capital tax, which companies must pay even when they make losses, and lower local profit taxes to help medium-sized enterprises. Wealth tax will be abolished from next January and inheritance and gift taxes reformed to ease the transfer of family-owned companies from one generation to another.

EASING BURDEN OF TAXATION

Reform of tax system will come in three stages

By Peter Norman

A three-stage reform of Germany's complex and burdensome tax system was a central element of the "action programme for investment and jobs" agreed by the Bonn cabinet yesterday. Mr Theo Waigel, finance minister, said the government planned a "revenue neutral" reform of company taxes from January 1, followed on July 1 1997 by the two percentage point reduction to 5.5 per cent in the deeply unpopular "solidarity surcharge" agreed by coalition parties on Monday.

Low-key announcement for government's plans

France unveils measures to relaunch economy

By Andrew Jack in Paris

Many of the French government's measures, announced yesterday, for relaunching the economy, are less about significant new initiatives, and more about fine-tuning existing ideas - which will involve considerable questions of interpretation. The reforms, finalised late on Monday night, were made public in a relatively low-key way. It was Mr Jean Arthuis, the economics and finance minister, who unveiled the details rather than Mr Alain Juppé, the prime minister, who spoke about them on television later. Perhaps one of the most important measures was not part of the package at all. Mr Arthuis stressed that the government was determined to remain within "a few billion" francs of its FF322bn (€42bn) budget deficit target for 1995, and within the "envelope" voted by the French parliament in 1995. To help achieve this in the light of slowing economic growth and falling tax revenues during the current year, he said that an extra FF200bn in credits allocated in the 1995

budget would be frozen. A second notable result of negotiations held over the past few days ahead of publication of the details of the measures was a reduction announced yesterday afternoon by the country's leading commercial banks to lower their base rates. From the start of February they will come down by 0.5 per cent to 7 per cent, a move which should substantially reduce financing costs and could help boost consumption and industrial investment. The *quid pro quo* was one of the central pillars of yesterday's initiatives. In line with growing speculation throughout January, Mr Arthuis said that the key tax-free *Livret A* national savings interest rate would be reduced from 4.5 per cent to 3.5 per cent. The action could prove risky, since some 80 per cent of French households have *Livret A* accounts - available through the Post Office and the national savings bank network - and the last such cut in 1995 provoked a sharp fall in the government's popularity. But the higher rates will be preserved through schemes targeted at young people and

those on low incomes. Mr Arthuis, echoing the commercial banks' concerns, argued that the rate had become out of step with the returns available on other investment products, which have fallen steadily. He also stressed that the *Livret A* was used to finance public housing, and a reduction in the interest rate for savers would also reduce the cost of loans, helping organisations across the country to build more low-income accommodation. Among the other ideas announced to help boost consumption was a 25 per cent tax deduction for the first two years available on loans taken out to buy consumer goods. The markets' reaction to the French measures appeared positive, with the CAC-40 index of leading quoted company shares closing up 1.13 per cent at the end of the day. Officials also argued that many of the measures announced in Germany yesterday matched programmes already taken in hand in France over the past few months, including initiatives designed to help small and medium-sized businesses.

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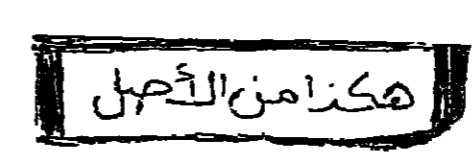
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Dispute at EU over contract tendering

By Caroline Southey in Brussels

The European Parliament is set to spike European Commission proposals aimed at ensuring a level playing field for EU and non-EU companies tendering for large public sector contracts in the Union.

The Parliament's monetary affairs committee last week rejected proposals to modify the EU's procurement laws to bring them in line with an international agreement which applies rules ensuring fair and open competition to more contracts and bidders than current EU rules, and under which companies failing to win a contract have the right to be told why.

The Commission has reacted furiously to the decision, which could be backed by a full vote of the Parliament next month.

The EU, along with seven other countries, is signatory to international rules - the Government Procurement Agreement (GPA) - which provide guarantees of fair and open competition for public sector contracts.

The international accord gives EU companies access to Ecu450bn (\$570bn) worth of contracts a year outside the

EU and reciprocal rights within the EU to companies from the US, Japan, Canada, Korea, Israel, Norway and Switzerland.

The Commission believes changes to EU procurement directives are necessary to ensure EU companies are not discriminated against under GPA, which was negotiated under Gatt and came into force on January 1.

But the parliamentary committee, backed by a powerful industrial lobby, argued that the Commission's proposed changes went beyond the adjustments needed to comply with the GPA.

"It is true the legislation has to be adapted, but the Commission wants too many changes. It is going too far," one lobbyist said.

The Commission believes the campaign against the proposals has sought to distort the scope of the changes. "Opponents to the EU's liberalised procurement regime are simply using the opportunity to attack the system," an EU official said.

The Commission appears to have incurred the wrath of some industries because it has argued that the proposed changes should apply to all sectors and aspects of procure-

ment policy, not just those covered by the GPA. "The Commission's intention was to create a level playing field inside the internal market. As a first shot it went for across the board changes," an EU official said.

Among changes being sought by the Commission was a reduction in the threshold for some contracts to make sure that contracts advertised for third-country bidders under the terms of the GPA, which are in some cases lower than in the EU, are also available to EU companies.

"Without this adjustment foreign companies would have rights and guarantees provided by the GPA which EU companies do not have under EU directives," an EU official said.

A change was also being sought to the rules governing "technical dialogue" - the process whereby utilities talk to potential suppliers ahead of concluding a deal.

Chirac bids to rebuild French image in US

By Andrew Jack in Paris, Tony Walker in Beijing and William Dawkins in Tokyo

President Jacques Chirac flies to Washington today hoping to put behind him the diplomatic damage caused by nuclear tests in the Pacific and present a more constructive image of French security policy.

He will reaffirm his keeness for an early comprehensive test ban treaty (CTBT), and discuss with President Bill Clinton the practical implications of France's new-found willingness to co-operate more closely with Nato.

France has proposed to its Nato partners a political dialogue on the role of nuclear weapons, in a step back from its traditional insistence on total independence in nuclear matters.

The US has warmly welcomed France's rapprochement with Nato and is keen to define the new French role in the alliance as soon as possible. But some diplomatic fall-out from the six nuclear explosions conducted in French Polynesia since last autumn, in defiance

of western public opinion and most governments in the region, appears to be lingering.

Monday night's announcement in Paris that nuclear tests had been completed drew a chilly response from the Japanese government, suggesting that it will take some time for bilateral relations to mend.

Mr Yukihiko Ikeda, foreign minister, reiterated criticisms of France for defying world opinion, and called on France "to contribute in a more active manner to conclude a CTBT at the earliest possible time."

Japan hoped negotiations on a test ban could largely be completed this spring, paving the way for signature by the autumn. The issue is likely to rank high on the agenda when Mr Chirac visits Tokyo later this year.

Mr Seiroku Kajiyama, Japan's chief cabinet secretary, echoed Mr Ikeda's coolness. "It is extremely regrettable that France conducted the nuclear tests in defiance of protests from our country and the international community," he said. China affirmed yesterday that it would continue its under-

ground nuclear test programme until a test ban came into force.

"The position of the Chinese government on nuclear testing is clear-cut and remains unchanged," a Chinese official spokesman said. "China has conducted a very limited number of nuclear tests and things will continue to be that way."

Mr Chirac moved to repair France's battered image in the Pacific region by announcing annual payments of FF900m (\$190m) a year for the next decade to French Polynesia, counter-balancing the effects of the removal of two military bases there.

He said the two uninhabited atolls of Mururoo and Fangatafa, on which the six tests were carried out, would be restored to "pre-test conditions" and steps would be taken to help boost the local economy.

Meanwhile, trade figures released in the past few days have shown that while there were calls for boycotts of French products, the economic effect on exports was more symbolic than substantive.

Venice vows to restore La Fenice

Robert Graham and William Packer report on the aftermath of the opera house fire

The Italian government yesterday treated the gutting of Venice's historic La Fenice opera house on Monday night as a national disaster. Estimates put the cost of full restoration as high as L500bn (\$312m).

Offers of help poured in from all over the country to restore the 200-year-old opera house, a source of inspiration for Italy's main composers. La Fenice commissioned Verdi's best-known works, *Rigoletto* and *La Traviata*. It also witnessed the debut of the late Maria Callas.

The marble facade of La Fenice - which means phoenix - was the sole part left unscathed.

Perhaps symbolically the gilt phoenix with a scroll over the entrance saying *Gran Teatro la Fenice* was not even singed. But the roof had collapsed, the interior reduced to mounds of charred smoking rubble while the side walls were in a precarious condition.

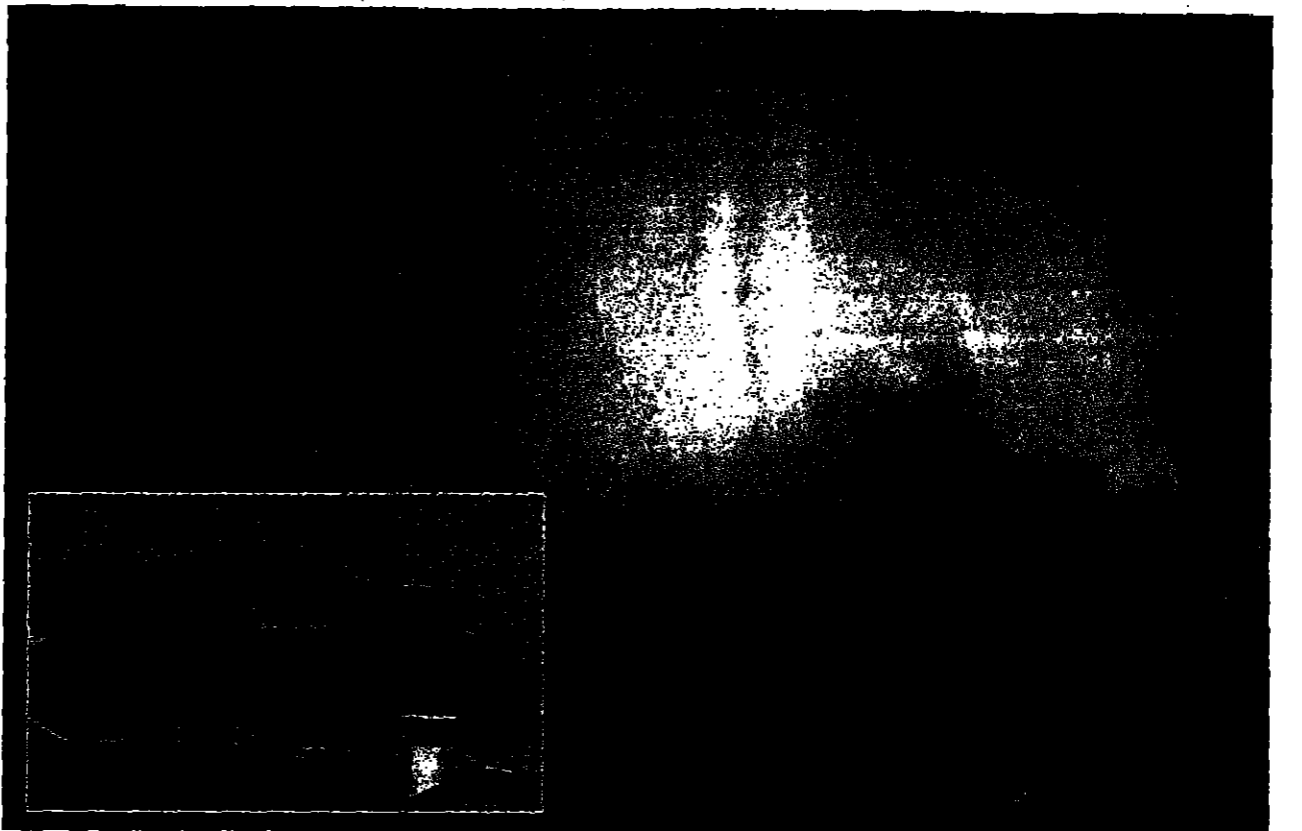
Mr Massimo Cacciari, the philosopher mayor of Venice, was seen close to tears surveying the damage. He vowed that the opera house would be fully restored as soon as possible.

Luciano Favrotti, the tenor who had sung many of his favourite roles there, said: "I'm distraught: it was our jewel."

Firemen yesterday ruled out arson - the cause of the fire in 1991 that destroyed the Petruselli opera house in Bari.

The theatre, owned and operated by its box holders, the Noble Society - the Noble Society - was in the final stages of a nine-month restoration. It was due to reopen in March with a Woody Allen clarinet concert.

The fire broke out in a top floor storeroom connected to the theatre. Due to the large amounts of wood in the roof,



La Fenice opera house at the height of Monday night's fire and yesterday. Only the external walls and the foyer were saved

flames spread rapidly, causing the boxes that lined the walls to collapse. Within an hour the flames had virtually gutted the 700-seat interior.

Firefighting efforts were hampered by most of the canals closest to the Fenice having been recently drained for a clean-out. Firefighters used a helicopter to pick up water from elsewhere in the city and drop it into the flames.

As flames rose on Monday night above the rooftops,

reflecting a warm rosy glow on the palaces around the Grand Canal, there were fears for other historic buildings. Sparks from the blaze rained down all around and burning embers were falling from the sky at the Giudecca Canal, more than 2km away.

La Fenice, a neo-classical masterpiece by Giannantonio Selva, who was active in Venice around the fall of the republic, means a great deal to the Venetians.

Completed in 1792 it had

already suffered a serious fire in 1836, after which its interior was rebuilt. La Fenice is, or rather was, not one of Venice's oldest monuments; but it was as beautiful as any.

Byron described it as the finest opera house in Europe.

During the Austrian occupation, which lasted 50 years after the Napoleonic wars, the theatre became something of a symbol of the passive resistance of the Venetians to their oppressors - even the grandest Venetians refused to take

boxes and sat in the stalls, failing to applaud the performances in a public demonstration which would not be labelled as subversive.

The state-run Venice opera company averages 12 productions a year and the theatre also stages a distinguished programme of concerts.

The company is currently on tour in eastern Europe. Among the productions scheduled just after the opening in March was a new version of Mozart's *Don Giovanni*.

EU retreats on Turkish human rights

By Lionel Barber in Brussels

EU member states have secretly watered down provisions on human rights and democracy in Turkey which formed an intrinsic part of a Ecu275m (\$476m) aid package for the Ankara government.

The retreat on human rights has provoked protests from the European Parliament which understood that the conditions were linked to its approval last month of the EU customs union with Turkey. Senior Brussels civil servants and representatives of the European Parliament were yesterday trying to defuse the dispute over human rights - the largest single problem in Turkey's relations with Europe.

The dispute is part of a broader power struggle over foreign policy between MEPs and the Council of Ministers representing the 15 member states.

The initial draft of the financial aid regulation - put forward by the European Commission and supported by the European Parliament - allowed the Council to take action in the case of human rights violations in Turkey by a qualified majority only.

The Council has since watered down the human rights language substantially and made retaliatory measures subject to the far tougher hurdle of a unanimous Council vote.

A second provision in the text states that "They (the measures) shall be adopted for a limited period, which may be extended by a decision of the Council acting accord-

ing to the same procedure."

Mr Alex Falconer, MEP for Mid Scotland and Fife, last week wrote to the 15 EU foreign ministries in protest at the altered text, expressing outrage that member states' parliaments and citizens were being bypassed by the Council.

"How bad will things have to get before all member states agree any action against Turkey? It is likely to be an extremely rare occurrence. Any number of qualifications on human and democratic rights could be written into the Customs Union and the financial co-operation arrangement. The Turkish government could safely ignore them."

Council officials said yesterday the changes in the text were the legitimate prerogative of member states, and that the Parliament was chiefly interested in winning more powers on foreign policy, specifically via the right to be "consulted" before any action by the Council.

The officials pointed out that consultation with Parliament could lead to delay of up to two months, further cramping the Council's ability to act decisively on EU foreign policy.

But Mr Falconer said that many MEPs had only agreed to support the customs union with Turkey last month on the understanding that their human rights concerns could be accommodated in the text on financial aid.

The Parliament approved the customs union by 343 to 149, dropping earlier threats to veto the accord because of concern about Turkey's commitment to human rights and democracy.

Liberals urge prime minister to challenge Yeltsin

By John Thornhill in Moscow

Russia's embattled liberals, who feel betrayed by President Boris Yeltsin's lurch towards nationalist hardliners, are trying to draft Mr Victor Chernomyrdin, the moderate prime minister, as a candidate for June's presidential elections.

Izvestiya newspaper said yesterday that democratic groups in St Petersburg were already rallying to Mr Chernomyrdin's cause. It also suggested the political council of the Our Home is Russia movement, which contested last month's parliamentary elections, would decide by February 15 whether to back a presidential bid by its leader.

Mr Chernomyrdin, who is in Washington to discuss a \$5bn International Monetary Fund loan, has publicly rejected the possibility of running against Mr Yeltsin, should the president decide to seek re-election. But it is thought that he may yet decide to break with the president - especially if widespread rumours that he will soon be sacked are borne out.

Mr Yeltsin yesterday strengthened the impression he will seek re-election by calling for a "non-segregation pact" with the communist-dominated parliament. Mr Yeltsin says he would announce whether he will run by February 15.

It would be an ironic twist if the liberal parties rallied around Mr Chernomyrdin as their saviour. He was castigated by those same pro-market reformers, when he succeeded Mr Yegor Gaidar as prime minister in 1992, as being too conservative.

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Engineering recovery set to continue

By Frances Williams in Geneva

The recovery in the world's engineering industries is expected to continue into 1997, especially for investment goods such as machine tools, robots, computers, office machinery and telecommunications, according to a report by the United Nations Economic Commission for Europe.

After dipping to a recessionary low in 1992, the engineering industry worldwide recorded growth of more than 6 per cent in 1994. Forecasts for individual industries suggest continued buoyant expansion between 1995 and 1997, the report says.

Although most forecasters have downgraded predictions for overall economic activity last year and this, the ECE notes that sustained high investment is creating bright prospects for much of the engineering sector.

Thus the semiconductor industry is predicting 26 per cent growth in production in 1996 after 40 per cent last year, while sales of personal computers are forecast to rise 16 per cent in 1996.

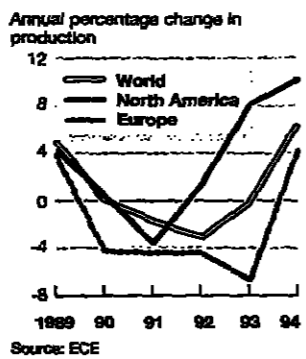
However, the US aircraft industry is still in a slump and demand for motor vehicles will remain sluggish, the report says.

Despite the surge in production since 1992, engineering companies in the US and Europe have not expanded employment since they undertook drastic restructuring measures to cut losses and improve profitability in the recession.

This has led to some spectacular productivity increases, the ECE points out.

US examples cited include Microsoft, which boosted sales per employee by 45 per cent between 1990 and 1994, Texas Instruments (96 per cent), Ford

Engineering industries



(43 per cent) and AT&T (30 per cent).

Nor were European companies laggards in this respect. Sales per employee rose 39 per cent over the same period at Daimler-Benz, 71 per cent at Volvo and 81 per cent at Electrolux.

In Japan, by contrast, companies hung on to labour during the recession with the result that productivity plunged. Toyota and Mazda, the motor manufacturers, saw sales per employee fall by nearly a quarter, while in the electronics sector NEC suffered a drop of 37 per cent and Toshiba 31 per cent.

The report also notes that Japan's export industry is far more heavily geared to engineering than elsewhere. More than three-quarters of Japan's total goods exports in 1994 originated from the engineering sector compared with just over half for the US and Germany. The latter countries also had much higher ratios of engineering goods imports.

World Engineering Industries and Automation: Performance and Prospects 1994-96 (Sales No. E.96.I.E.5), from UN Sales Section, Palais des Nations, CH-1211 Geneva 10, 575.

Terrorism in retreat in Upper Egypt

Curfew-free Assuit prepares to welcome tourists back, says James Whittington

Assuit, the provincial capital of Upper Egypt, no longer lives up to its reputation as a hot-bed for dangerous Islamic militants. A mixture of iron fist security operations, increased money for development, and attractive investment incentives are working to transform the town from a terrorist base to a revitalised centre for commerce and industry.

The dawn to dusk curfews have long been lifted. Egyptian special forces have moved on to other trouble spots, and what was only last year a no-go area to foreigners is readying itself to welcome back tourists.

"We've turned our back on the past and are focused on one main objective: To get people to Assuit for investment. This is the only way we can avoid a repeat of what's happened here," says Mr Kadrie Abu Hussein, general secretary of the town's governorate.

As a sign of the times, Assuit's new governor, Mr Mohamed Ragai al-Tablawi, who was appointed last week, was taken from the town's university rather than the ranks of the police like his predecessors.

Located on the broad fertile plains of the Nile, 375km south of Cairo, Assuit is typical of

Upper Egypt which has a distinct character from the rest of the country.

After decades of neglect, the region is generally poorer and less developed than the rest of the country. Per capita income, at about \$330 a year, is about half that of the rest of the country while infant mortality rates, adult illiteracy and unemployment is noticeably higher.

Assuit itself, once a prosperous centre of private enterprise, suffered particularly badly from the nationalisation policies of President Gamal Abdel Nasser, its most famous son, who overthrew the colonial British-backed monarchy in 1952. The gradual decline in living standards, increased unemployment, especially

took place of the militant group *Gamma'a al-Islamiya* which has been behind much of the insurgency over the past few years.

Young *sa'ids* (or south-ers) from poor families with little hope of anything better than a dull and badly-paid job in the public sector proved ideal recruits to the radical brand of Islam which the *Gamma'a* touted as the only solution to save the region from social and economic malaise.

"People here have been living in unrealistic conditions for so long it's not surprising that some were persuaded to make trouble. It was not a religious dispute or real fanaticism, it was simply the drastic

the *Gamma'a* vowed to overthrow President Hosni Mubarak's government. While occasional attacks against senior government officials and tourists in Cairo made the headlines in the foreign press, many areas in Upper Egypt were subject to an almost daily dose of bloodshed.

In Assuit, the town's large Coptic community, a Christian minority, which traditionally prospered as landowners and merchants, were a favourite target for the militants and by December 1993, thousands of extra police troops had to be called in and all roads to the town sealed off to try and subdue the violence.

"The situation was terrible. We were always scared of being attacked by one of the

"People here have been living in unrealistic conditions for so long it's not surprising that some made trouble. It was not a religious dispute or real fanaticism"

among high school graduates, and the seeming indifference to the region's plight by successive governments in Cairo subsequently proved a fertile breeding ground for radical Islamist groups.

It was in Assuit University in the 1970s that the formation

economic situation," says Mr Mokhtar Hussein, a wealthy Egyptian who has come back to his family's roots to invest in the new Assuit with a number of agro-industry projects and a new luxury hotel.

Islamist violence erupted in Egypt at the end of 1992 when

terrorists but were more scared of the police who were very provocative. Whenever they got together in groups there was always trouble," said one Copt who declined to be named.

Once security was under control the government beefed



up its intelligence and surveillance operations and moved swiftly to try and alleviate some of the area's economic problems.

Public money was found to upgrade the town's infrastructure, build new roads and bridges and investment incentives were announced to attract the private sector with free land and tax exemptions.

"One of the most important things to do is to try and change the mentality of the lower classes and particularly the young. We have to create jobs, put money in their pockets, and give them a sense of opportunity and entrepreneurship," explains Mr Fouad Fatmah, who arrived in Assuit at

the end of 1992 to set up a regional office of the government's Social Fund for Development. One of Egypt's most successful programmes aimed at helping the underprivileged.

The Fund, which is backed by the World Bank and donor countries, has so far spent EGP108m (£21.1m) in grants, for public and community works, and credit lines to more than 2,400 small enterprises throughout the governorate.

Mr Ibrahim Lotfi Dobbes, who borrowed EGP100,000 with his brothers to set up the first rubber parts factory in Upper Egypt, says the money has made a huge difference to his family and his village. With 24 employees he works a two-shift day to keep up with orders.

"Without this money we would still be waiting for a job with the government," he says.

Despite the turnaround in Assuit's fortune's, however, trouble is never far away. Only 87km north of Assuit is the town of Malawi where special forces are still battling with militant renegades. "The terrorist action pushed the government to do something for this area but this mustn't be a one-off, unless the people feel a difference on a personal level there will be trouble again," warns private investor, Mr Hussein.

Cairo votes to scrap new tenancy rent controls

By James Whittington in Cairo

Egypt's housing market has been given a long-awaited shot of deregulation after the newly elected parliament yesterday scrapped rent controls for all new tenancy agreements.

The change, recommended by the International Monetary Fund, will not only free future rentals but will also give landlords the right to evict future sitting tenants. The amendment to the old housing law will not apply to an estimated 95 per cent of Egypt's housing stock where rental agreements already exist.

"This will cause a gradual revolution in the housing market," said Ms Sabine Luca of rental agency Foresight Property Services. "It will remove the difficulties for landlords in renting property to Egyptians by enshrining new tenancy agreements in the law which will help to create a real market for rented accommodation."

"It's a step in the right direction," said one local economist. "But the huge difficulty remains of how to deregulate the existing occupied housing."

With more than a quarter of

Egypt's 60m citizens living on less than \$25 a month and barely able to cover their fixed rents, the government feared a wholesale change to the housing law would have caused social unrest.

Since taking over as prime minister at the beginning of this month, Mr Kamel al Ghazouari has managed to breathe some life into Egypt's sputtering economic reforms. Last week he reduced customs duties on a list of capital goods and has set in motion a series of reforms to encourage investment.

Under the old rental system, the

market became so distorted that a wealthy family living in a large apartment in a prestigious area, such as Zamalek overlooking the Nile, could be paying the same as their maid renting a room in the slums of Imbaba.

On top of the monthly rent, tenants pay a down-payment in the form of key-money which for most Egyptians requires years of saving. However, once settled they have been virtually guaranteed a lifetime of accommodation and would often pass on their rental agreements to their children.

As a result, landlords have been

either deterred from renting their properties or have left their occupied housing to crumble away through lack of maintenance.

The construction of informal housing has helped cater for those who cannot afford to pay key-money, exacerbating already overcrowded urban areas.

For middle income housing, many landlords preferred to leave their apartments vacant rather than see them taken away by sitting tenants. In Cairo alone there are an estimated 2m empty properties.

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Hard to Beat

Southern Africa to seek free trade zone

By Roger Matthews in Johannesburg

Ministers from the 12 member nations of the Southern African Development Community yesterday concluded a three-day meeting with a commitment to reduce tariff barriers and work towards the creation of a free trade area.

The pledge is an essential part of SADC's long-term strategy to reduce its dependence on aid and encourage regional and foreign private sector investment. Ministers and officials from the 12 delegations will over the next two days meet representatives from Nordic countries, the EU and industrialists to discuss ways of attracting more private sector investment.

"Bearing what the business community has to say about what we must do to attract investment is critically important for us," said a SADC official.

Mr Kabre Mbende, the executive secretary of SADC, said the most important decision had been to prepare a protocol for removing trade barriers which would be signed at the organisation's summit in August. "The aim will be to replace the present series of bilateral trade agreements with a single multilateral protocol. Trade ministers will meet in June and the final draft should be ready for the summit in Lesotho," he said.

Mr Mbende said other elements of the trade protocol would be the creation of a single negotiating forum, the reduction and eventual elimination of non-tariff barriers, proposals for the creation of a "financial facility" to promote industrial development, the sharing of information and research, and giving formal notification to the World Trade Organisation of SADC's intention to create a free trade area in southern Africa.

Negotiations are likely to prove tough, however, because of the great economic disparities between the 12 countries. South Africa is sensitive of the extent to which it dominates the organisation economically, and officials stressed yesterday that its prime concern was to help member countries reach a similar level of development.

The members of SADC are Angola, Botswana, Lesotho, Malawi, Mozambique, Mauritius, Namibia, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.

INTERNATIONAL NEWS DIGEST

Tanzania and Uganda SE move

Uganda and Tanzania will have operational stock exchanges by mid-year, senior officials from Kenya's two East African neighbours said yesterday. The launches of the two bourses are part of wide-ranging economic reforms. The officials interviewed in Nairobi, said the first share flotation in Kampala, Uganda's capital, would be next month and a stock exchange would be set up in Dar es Salaam, Tanzania's economic capital, by June 30.

The officials spoke on the sidelines of a Nairobi conference on capital issues in emerging markets. The Kampala bourse has held trial trading for some time and officials said interest from private business was robust. Mr John Kagwa, an official at Uganda's central bank, said Uganda was encouraging foreign investors and foreign brokers to take a lead on the bourse because officials knew that harnessing finance from local sources was not easy.

Uganda began the path of economic reforms in 1986 with the rise to power of President Yoweri Museveni, an economist and political scientist who had fought a five-year bush war.

In 10 years of governance, Mr Museveni has brought relative prosperity to a nation once dubbed the "Pearl of Africa". The Kampala bourse is expected to rely on privatisations of government companies.

Tanzania began liberalisation in earnest with President Ali Hassan Mwinyi, who took over from founding socialist president Julius Nyerere in 1985. Mr Mwinyi's liberalisation of trade and markets was slow and the mantle has been passed to Mr Benjamin Mkapa.

Reuters, Nairobi

UN to stay in Western Sahara

The United Nations mission trying to arrange a referendum on the future political status of the former Spanish territory of Western Sahara is being allowed a few more months to continue its efforts.

The Security Council was expected to adopt formally last night a resolution extending the mandate of the 370-member international mission, known as MINURSO, until May 31.

Its task is to identify and register people entitled to vote in a referendum that would decide whether to declare Western Sahara independent or confirm its incorporation in the kingdom of Morocco. The Moroccan control most of the territory but their presence is opposed by the Polisario Front independence movement.

The proposed referendum has run into repeated snags and is four years behind the deadline originally set for its completion. The resolution prepared in lengthy private consultations for Council action - which diplomats said would be unanimous - would declare the world body's "deep concern about the stalemate which has been hindering the identification process."

Polisario and the Moroccan authorities would be urged to co-operate with the UN to overcome the obstacles and invite it to find new ways to create a climate of mutual confidence.

Michael Littlejohns, New York

Kazakh parliament reopens

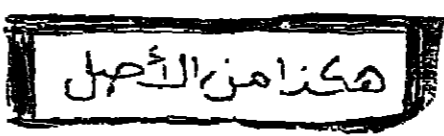
Kazakhstan's president Nursultan Nazarbayev reopened parliament yesterday after a gap of nearly a year, telling it not to repeat the mistakes of its predecessor and speed reforms in the former Soviet republic. Parliament reconvened at the end of a 10-month break during which Mr Nazarbayev held referendums to prolong his term and boost his powers over this vast oil-rich republic of 17m people.

"We need to...finally stabilise the economic, political and social situation and enter a new stage of development," the former Soviet politburo member said in a one-hour speech.

The deputies could have a tough task winning the trust of the Kazakh public as their predecessors had a reputation for being slow to pass legislation. The Soviet-era Supreme Soviet dissolved itself in late 1995 while the next parliament, elected in March 1994, was dissolved a year later after its election was ruled invalid.

Analysts say Mr Nazarbayev engineered that dissolution because the deputies passed just seven laws in a year. He has since issued over 80 decrees.

Reuters, Alma Ata



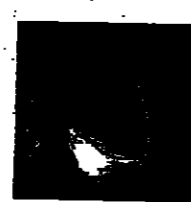
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NEWS: ASIA-PACIFIC

Singapore attracts 17% investment boost

By Peter Montagnon, Asia Editor, in Singapore

New investment commitments in Singapore's manufacturing sector rose 17 per cent last year to \$36.8bn (\$2.2bn), holding out prospects that the island republic will be able to sustain high economic growth in the medium term by boosting productivity and upgrading skills, the Economic Development Board said yesterday.

The largest beneficiaries were the chemicals and electronics sectors,

which accounted for 43 per cent and 39 per cent of new commitments respectively. Mr Philip Yeo, EDB chairman, said investment by local Singaporean companies was also high for the second year running. It accounted for 28.7 per cent of total commitments, compared with its traditional share in the mid-teens.

Singapore's overall economic growth rate fell last year to 8.9 per cent from 10.1 per cent in 1994, but government planners believe the economy can sustain an 7 per cent

growth rate between now and 2000. Manufacturing industry should grow equally fast so that it maintains its 25 per cent share of the overall economy, Mr Yeo said.

Mr Yeo said Singapore had lost some projects last year to European countries prepared to subsidise them to cut unemployment. But though Malaysia and Thailand were also seeking to establish wafer fabrication plants, Singapore had "a head start" in attracting high value-added investment to the Asia-Pacific region.

Singapore has been trying to promote itself as a regional manufacturing centre, offering innovation and research skills to multinationals wanting a presence in the Asia-Pacific region. It also offers financial risk-sharing and co-investment schemes to companies investing outwards into the region from Singapore. The government yesterday formally announced the launch of a Singapore industrial park in Vietnam, along the lines of that already established in Suzhou, Southern China.

Further initiatives planned for 1996 include new incentives, including tax concessions on remission of profits and service income for companies that set up regional manufacturing headquarters in Singapore. This scheme will complement concessions already available to multinationals using Singapore as a regional administrative headquarters.

Mr Yeo said it was targeted at companies using Singapore to provide manufacturing support services to other companies in the region.

ASIA-PACIFIC NEWS DIGEST

Indian private sector 'robust'

India's private sector has responded "impressively" to four years of economic reform, inspiring a "robust economic expansion" led by private investment and export growth, says an International Monetary Fund study released yesterday. But the study warns India must "persevere" with reforms - addressing tighter fiscal discipline, deeper tariff cuts, labour market liberalisation and public enterprise restructuring - to emulate more strongly growing south-east Asian neighbours.

The IMF's first occasional paper on India found that following a balance of payments crisis in 1991, clear signs emerged in 1994-95 of a "vigorous" rebound marked by resurgent private investment and growth, notably in cars and consumer electronics, and with big investments planned in telecoms, power, petrochemicals and oil exploration. Obstacles to private investment remain, it says, including inadequate basic infrastructure, cumbersome state-level permit procedures, and the reservation of 650 items, including most consumer non-durables, for production only by a protected small-scale enterprise sector. *Mark Nicholson, New Delhi*

Farmers attack fast-food outlet

Kentucky Fried Chicken's outlet in Bangalore, the chain's first in India, was attacked by about 40 farmers yesterday and forced to shut. KFC officials, who have been threatened before by the group opposed to multinationals, said they were "shocked and appalled at the violence", and asked for state government help to restart business. The farmers belonging to the Karnataka Rajya Ryotha Sangha, an association of farmers in the state, broke furniture, causing minor injuries to bystanders. When KFC opened the outlet last year, the farmers claimed fast-food chains would deplete the country's livestock and affect agriculture. *Shiraz Sidhu, New Delhi*

Japan's bailout debate boycotted

Japanese government attempts to win approval for its plan to spend public money to bail out bankrupt housing loan companies or *Jusen* got off to a bad start yesterday when opposition members walked out of the first parliamentary debate on the plan. Members of the main opposition New Frontier party on the lower house budget committee said they would boycott discussion until the government provided a more detailed justification of its proposal to spend more than ¥1,000bn (\$8.2bn) on the scheme. *Gerard Baker, Tokyo*

N Korea to let in nuclear teams

North Korea said yesterday it would let the International Atomic Energy Agency inspect all its declared nuclear facilities now that a US-led consortium has agreed to supply it with reactors. "The DPRK (North Korea) side notified the IAEA side that it would allow the IAEA's routine and ad hoc inspections of unfrozen nuclear facilities," the official Korean Central News Agency said. *Reuter, Tokyo*

Japan jobless still at record level

By William Dawkins in Tokyo

Japan's unemployment rate stagnated in December at a record 3.4 per cent for the second month in a row, but government officials greeted a slight improvement in the labour market as a sign of better times ahead.

In another moderately encouraging sign yesterday, the government's Economic Planning Agency said that its index of leading indicators stood at 60 in November, the second month in which it has remained above the 50 dividing line between growth and decline.

The index, a basket of economic indicators including money supply, housing starts and industrial production,

pointing to conditions up to six months ahead, stood at 72.7 in October. The EPA's index of coincident indicators, measuring current economic conditions, stood at 50.

Yesterday's unemployment figures, however, cast a continuing shadow over consumer demand. The December unemployment result left average unemployment last year at 3.2 per cent, the worst ever, during a time when the economy was struggling to emerge from the longest recession since the 1930s.

The number out of work by the end of December reached 2.1m, up by 340,000 or 13.2 per cent from the same month the previous year. Total employment fell by 0.2 per cent to 63.9m.

The jobless rate might look low by international standards, but Japan's labour ministry uses a uniquely tight measure to define people out of work. Economists in Tokyo believe that the underlying level of joblessness, on the same criteria as used by the US, may be double the officially published rate.

Worst hit were young people. The official jobless rate among those aged between 15 and 24 rose by 0.7 of a percentage point to a record 6.1 per cent last year. They are victims of Japanese companies' curbs to trim their work forces, a strategy dictated by the social unacceptability of making heavy redundancies among existing workers.

Manufacturing companies, responding to surplus capacity and fierce Asian competition, were the fiercest labour cost cutters. They trimmed their workforces by 2.2 per cent over the year to December. Jobs were, on the other hand, created in construction, where a 1.4 per cent rise in the number of workers over the same period reflects a public spending boost on infrastructure. Retailers, wholesalers and restaurants increased staff by 1.3 per cent, while employment in the service sector as a whole grew by just 0.4 per cent over the period.

Overall, the number of jobs available per 100 job seekers rose by two from November to 65 last month, the third monthly increase in a row.

Force an option, Li tells Taiwan

By Tony Walker in Beijing

China yesterday renewed its strong criticism of Taiwanese leaders' efforts to achieve greater independence, but stopped short of laying out a timetable for reunification.

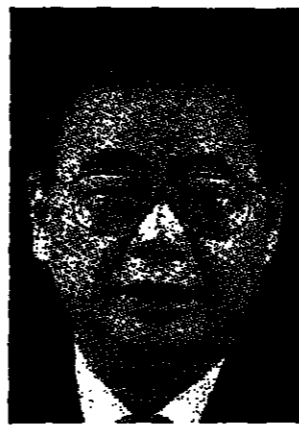
Premier Li Peng, speaking on the first anniversary of the release of an eight-point plan for reunification by President Jiang Zemin, repeated that China had not renounced the use of force to recover Taiwan. "We have consistently encouraged the peaceful reunification of the motherland, but in the final analysis we cannot promise to give up the use of force."

Hong Kong newspapers had reported that China may use the occasion to provide step-by-step plans for reunification, but there was no hint of such a plan in Mr Li's speech.

Last Friday President Jiang, in an address to delegates to a new Preparatory Committee on Hong Kong, said resumption of sovereignty over Hong Kong in 1997 was the "first step" towards recovering Taiwan.

Mr Li's speech yesterday was clearly aimed at influencing presidential elections to be held in Taiwan towards the end of March. Beijing fears the poll will lead to strengthening demands for independence.

"There is only one China and Taiwan is an inalienable part of it," said Mr Li. "Whatever changes might occur in the way in which the leadership in Taiwan is chosen, they cannot change the fact that Taiwan is a part of China... It



Li: no reunification timetable

will lead nowhere if some people attempt to use the change of Taiwan leaders as an excuse to put their separatist activities in a legal guise.

China also repeated its warning to the US and other countries not to take action regarding Taiwan that might affect Sino-US relations. "Any foreign anti-Chinese power that tries to use it as a pretext to interfere in China's internal affairs will also be firmly opposed by the Chinese government," Mr Li said.

Beijing was incensed last year when the US granted President Lee Teng-hui of Taiwan a visa.

The New York Times reported last week China may be contemplating a strike against Taiwan after the election. Beijing did not deny the reports outright, allowing concern in Taiwan to build. See editorial comment

Keidanren takes up policy dialogue

By William Dawkins

The Keidanren, Japan's top business federation, yesterday convened its first ever formal policy talks with the government, in an attempt to restore the influence of business in Tokyo's tangled politics.

Thirty senior officials led by Mr Shochiro Toyoda, Keidanren's chairman, and his six vice-presidents, held consultation talks with Mr Taku Yamasaki, the ruling Liberal Democratic party's head of policy.

The dialogue, a Keidanren initiative, is the first in a series. While initially bland, it embodies the more open government approach advocated by political reformers. It marks a break with three years of

political upheaval, during which the Keidanren's once pivotal influence has waned.

Mr Yamasaki underlined to his Keidanren audience the LDP's commitment to running a stable government with its two coalition partners, rather than submitting to pressure for a quick election. He explained that the LDP would stick to its policy of using public money to bail out savers in bankrupt housing loan companies, now the subject of a heated parliamentary debate.

In return, Mr Toyoda stressed the Keidanren's desire for economic deregulation and its support for proposals to move the centre of government out of Tokyo. He also called for cuts to bring corporate and

personal income taxes more in line with international norms, to be financed by a rise in sales tax and reductions in government spending.

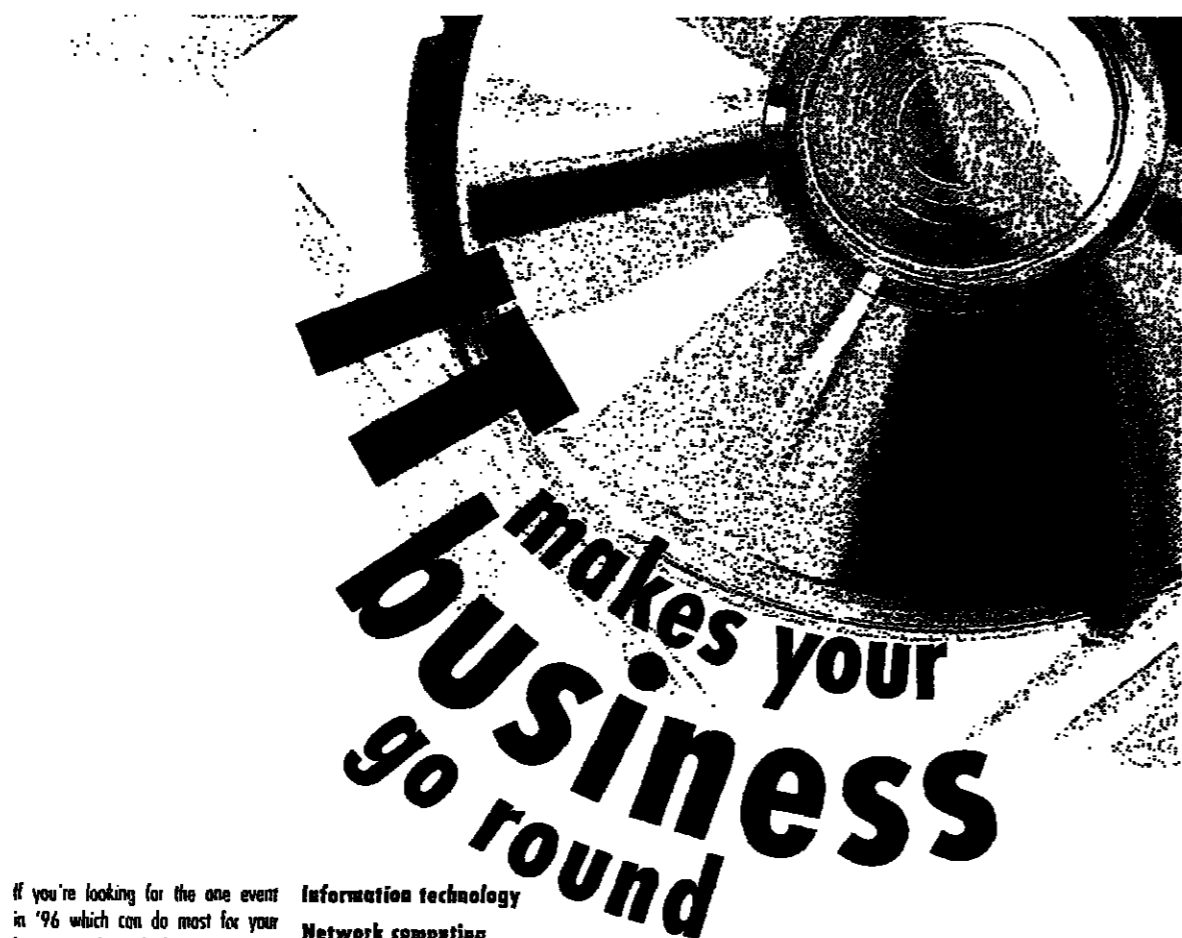
The Keidanren intends to hold two to three such meetings per month with senior members of the LDP and other political parties, including the opposition New Frontier party, said an official. The next meeting Tuesday, will be Mr Junichiro Koizumi, a former posts and telecommunications minister, who unsuccessfully stood against Prime Minister Ryutaro Hashimoto for the LDP leadership last September.

The aim is not so much to influence politicians as to let them know what we are thinking about and to find out what

they are thinking before they make proposals," said a Keidanren official.

The Keidanren was popularly seen as one side of the "iron triangle" of business, politics and bureaucracy that conspired to run Japan, until it signalled its discontent with the old system in 1993 by ending the practice of channelling members' political donations, chiefly to the LDP. But there was no regular policy dialogue between Keidanren and government even when it was making political donations.

Keidanren members started discussing formal consultations with politicians soon after the retirement two years ago of the former chairman, Mr Gaishi Hiraiwa.



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FINANCIAL TIMES
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China airport spending ready for take-off Manila reopens power plant bid

By Tony Walker in Beijing

China is accelerating the expansion of its airport network to cope with a continuing surge in passenger numbers, but has also placed a ceiling of 21 on new aircraft orders this year.

Spending on airports this year will rise by 30 per cent in line with government attempts to upgrade facilities which, in the case of the big hubs of Beijing and Shanghai, are grossly inadequate.

Beijing airport, for example, is designed for 5m passengers a year, but is handling 12-15m passengers. Shanghai airport is similarly chaotic. Passenger traffic has been growing by about 20 per cent annually.

Mr Chen Guangyi, director general of the Civil Aviation Administration of China, said Yn9bn (\$1.1bn) had been earmarked for spending on airport facilities in 1996 - the first year of the ninth five-year plan.

The CAAC, which is responsible for overseeing the development of the country's domestic aviation, said it was tightening rules on purchases of new aircraft to increase efficiency.

China last year imported 21 new aircraft, but at the same time retired 11 older models, a net gain of 10 for the year. This was the smallest increase in numbers of imported passenger



A worker relaxes on the tarmac at Beijing airport. Most workers still use bicycles to get from one part of the airport to another.

aircraft in any of the years of the eighth five-year plan (1991-1995).

China, which is regarded as the world's fastest-growing market for new aircraft, has some 400 commercial jets in service, of which about 200 are Boeing.

The US company estimates that sales of commercial aircraft in the country in the next two decades will be worth \$100bn, making it the third biggest aviation market in the

world after the US and Japan.

But for the moment, China's aviation authorities appear intent on consolidation after explosive growth in the early to mid-1990s as the country's economy grew rapidly. The number of airlines has been frozen at 32, and smaller carriers, many of which are loss-making, are being encouraged to merge.

China has also tightened operating procedures after a spate of disasters between

1992-1994 which raised questions about aviation safety.

The past year has been relatively trouble free.

The authorities are now turning their attention increasingly to improving airport facilities to cope with expected average annual passenger growth of 10 per cent for the next 20 years, compared with a forecast worldwide increase of 5.1 per cent.

Mr Li Zhao, vice minister of civil aviation, said in an inter-

view that during the ninth five-year plan the country would "do its best" to "reconstruct" 40 of the 133 airports in operation in China.

This would involve upgrading passenger facilities, and also making improvements to runways and navigation aids. China would also seek by the year 2010 to satisfy internationally recognised standards for satellite navigation for the whole country, which would also include its

remote western region.

China is devoting particular attention to Beijing airport. The terminal was completed in the early 1990s, before the full impact of economic reform and opening to the outside world was felt.

Work began last October on a new terminal with a capacity of 30m passengers a year. The terminal, to be completed in 1999, will cost between Yn7bn and Yn8bn.

China is also working on ambitious plans to relocate airports further from city areas, and build new ones. Guangzhou airport may be moved, and in Shanghai a new international airport is planned for the Pudong special economic zone on the east bank of the Hangpu river.

Vice Minister Li expects the airport reconstruction programme to cost Yn73bn during the ninth five-year plan, of which the government would provide about one-third with the balance coming from local government and foreign investors.

The amount earmarked for investment in airports to the end of the century is about three times that provided in the eighth five-year plan.

Numbers of new aircraft expected to be in service by the year 2000, according to Mr Li, will total 640, including 300 of which would be new.

By Edward Luce in Manila

The Philippine government yesterday said it would reopen bidding for a 1,200MW gas-fired power plant which was cancelled last June because of controversy over a long-running corruption scandal.

The winning bidder, Cepa (Consolidated Electric Power Asia), the power subsidiary of Mr Gordon Wu's Hopewell Holdings in Hong Kong, was disqualified last year after including technology developed by the US company Westinghouse in its bid.

The technology was banned by the Philippine government owing to Westinghouse's alleged involvement in the payment of kickbacks to win the contract to build a \$2.1bn nuclear power station in 1982. The power station, sited on an earthquake faultline, has been mothballed since it was completed in 1988.

The ban on Westinghouse technology was, however, lifted last September, three months after Cepa's disqualification, when the Philippine government struck a \$100m out-of-court settlement with the US company.

The settlement involved the donation of two 501F gas turbines to the Philippines worth

\$50m plus \$40m in cash.

In another twist, the Philippine government recommended that companies bidding for the 1,200MW contract in the rescheduled round on April 15 should include the previously banned 501F turbines in their proposals. This, said officials, would help lower costs.

"Cepa can join the (April) auction and even use the 501F technology they had previously offered to use for the project," said Mr Francisco Viray, the Philippine energy secretary, yesterday.

Mr Viray added that the decision to go ahead with the rebidding, in spite of Cepa's protests, was made "with the blessing" of President Fidel Ramos.

Cepa, which had earlier threatened to sue the government if it went ahead with the disqualification of its winning \$1.54bn bid, did not say yesterday whether it would take part in the April bid.

The Hong Kong company was joined in last year's cancelled round by Enron Power Corp, the US company, and Marubeni Power, the Japanese corporation. The gas-fired power plant is expected to be completed by 2002.

WORLD TRADE NEWS DIGEST

Russia acts on alcohol imports

Russia intends to auction import quotas for alcohol and tobacco products to stem the tide of cheap tax-free vodka from neighbouring countries. The move is particularly targeted at Ukraine, which has boosted vodka exports to Russia as a result of tariff exemptions under a bilateral free trade treaty.

Mr Yakov Urinson, deputy economics minister, said the level of imports for tobacco and alcohol products would be set at 20 per cent of the domestic market. Strong spirits, including vodka, would account for no more than 20 per cent of this alcohol quota, with the rest being allocated to wine. Importers would be able to buy the quotas at auctions arranged by commodities exchanges. No date for the introduction was given.

The move was welcomed by Russian alcohol producers, who said it would lead to a more "civilised" market. Russian distillers claimed tax exemptions enjoyed by Ukrainian exporters deprived Russia's treasury of Rb10,000bn (\$2.1bn) last year.

Historically, alcohol taxes have been a big source of income for the Russian budget. *John Thornhill, Moscow*

India approves investment plans

The Indian government yesterday approved 83 proposals envisaging total foreign direct investment worth Rs14.2bn (\$395m) in an effort to clear as many projects as possible before dates for a general election are announced in the next few weeks. The proposals include a \$60m-\$80m investment by Volvo, which plans to set up a wholly owned subsidiary for trucks in India.

General Motors of the US will invest Rs1.93bn to raise its stake in India to 300 per cent. The Delhi-based Escorts group will form a joint venture with Yamaha of Japan to develop a new generation of motorcycles, and Ericsson, the Swedish telecommunications giant, will establish a wholly owned subsidiary in India. The ministry of finance said the new proposals are expected to have an export projection of about Rs24.75bn over a five-year period. *Shiraz Siddiqui, New Delhi*

Italy raises China credit cover

Sace, Italy's export credit guarantee organisation, has agreed to raise its cover for China by L1,000bn (\$624m) to L5,000bn. The move follows strong pressure by exporters to raise cover for China in what is rapidly becoming an important but still risky market for Italian goods. At present Sace's exposure in China is L3,770bn with a previously set ceiling of L4,000bn.

This is one of the highest country exposures after Algeria and Russia. It is also more substantial cover than that provided by most of Italy's EU partners. Nevertheless, it only covers 57 per cent of current Italian exports to China, whereas the percentage is higher in both Algeria and Russia.

A Sace statement said the extra cover was necessary to accommodate the opportunities in China's forthcoming ninth five-year plan with special emphasis on industrial and automotive investments. The decision coincided with the formal opening of a joint venture plant of Iveco, Fiat's truck subsidiary, with Nankin Auto Works, with an initial annual production of 80,000 trucks. *Robert Graham, Rome*

Canada warns on farm jobs

If the US succeeds in reducing tariffs protecting Canada's dairy and poultry producers, more than 25,000 Canadian farm and food processing jobs would disappear by the year 2000, according to Ottawa economic consultants Informetria in a study on the effects of US action against Canadian farm tariffs.

The US has called for the establishment of a panel of experts under the North American Free Trade Agreement to eliminate the tariffs. Nafta requires tariffs between Canada, Mexico and the US to be phased out by 1998.

Canada argues that the dairy and poultry industries represent a special case and that it cannot allow the destruction of its domestic farm sector. An open border would prove the most serious threat to Quebec, where half of Canada's milk is produced.

Informetria predicts that US surpluses would be dumped in Canada and take up to 20 per cent of the market. The adjustment period would last about five years and be severe, the study added. *Robert Gibbens, Montreal*

Canada's Bombardier has sold five 50 passenger Dash 8-300 aircraft worth around US\$70m to Brymon Airways, a British Airways feeder line, to replace five older models. Brymon already operates two Dash 8-300s. *Robert Gibbens*

Talisman and Gulf Canada will start construction of the Corridor natural gas project in Indonesia soon after raising US\$450m in international financing. *Robert Gibbens*

Outokumpu Copper, part of the Finnish mining and metals group, has taken an 65 per cent stake in a company that will spend \$30m on an air conditioning and refrigerator tube making plant in Zhongshan City, Guangdong, China. The plant, scheduled to start up later this year, will produce 10,000 tonnes of tube annually. Production technology and core equipment is designed by Outokumpu which will also appoint key management. *Kenneth Gooding, Mining Correspondent*

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NEWS: THE AMERICAS

Zedillo seeks to cut power at the top Cellphone chief wants a refund

Mexico's president tells Stephen Fidler of his wish for political change without weakness

President Ernesto Zedillo of Mexico yesterday emphasised, in the clearest terms, his determination to reduce the overwhelming power of the presidential office.



Ernesto Zedillo: "You don't need a king or a high priest"

The Mexican political system - described five years ago by the novelist Mario Vargas Llosa as the perfect dictatorship - is one of the most centralised in the world.

This consensus, he said, was emerging in intense all-party talks. "We are hoping that, in the next congressional period that starts in the middle of March, we will already have some agreements to be translated into legislative action."

three-pronged reform of the Mexican state, which he was pursuing. The other elements were a "more balanced relationship" between the executive, judiciary and legislature, as well as decentralisation of the state.

"The party's next convention should establish very clearly and transparently its method of selection for candidates", including the election next year for the mayorality of Mexico City.

His government had moved ahead with structural economic reforms, despite the short-run emergency. These included railway privatisation, permitting private investment in natural gas, opening telecommunications to competition, continuing privatisation of ports, airport privatisation, and further efforts to sell petrochemical plants of the state oil monopoly, Pemex.

The known cost of programmes to support the banking system, and fix the problems of privately financed highways, was estimated at slightly more than 5 per cent of 1994 GDP in present value terms, to be paid over 30 years.

The president denied that the Mexican government's social security and pension reform proposals had been watered down by Congress. He said the matter of cutting the administrative costs of the large and expensive public social security administration did not need to be part of the law.

Mr Carlos Peralta, owner of the Mexican mobile telephone company Insacell, a listed company with Bell Atlantic as a US partner, had an embarrassing confession to make this week.

Mr Peralta is trying to recover his money from Mr Raúl Salinas's bank accounts in Switzerland. But Mr Salinas is in jail in Mexico and faces charges of murder and illicit enrichment.

On the North American Free Trade Agreement and relations with the US, the president pointed out that Mexico's exports to the US had risen 50 per cent in two years.

Regarding Mexican relations with the European Union, Mr Zedillo said he was especially interested in negotiating a free trade accord. "We'd like to see, even if it is not called a free trade agreement, something that implies a very substantial progressive liberalisation of our reciprocal trade."

Cellphone chief wants a refund

By Leslie Crawford in Mexico City

Mr Carlos Peralta, owner of the Mexican mobile telephone company Insacell, a listed company with Bell Atlantic as a US partner, had an embarrassing confession to make this week.

Mr Peralta said that 90 other prominent businessmen, industrialists and bankers had been invited by Mr Salinas to take part in his venture capital fund.

Colombia political crisis may bring economic woes

By Sara Kendall in Bogotá

Business leaders in Colombia say that, if the country's political crisis drags on, it could begin to inflict severe economic damage.

So far, the upheaval triggered by allegations that President Ernesto Samper of Colombia knew about contributions by drug traffickers to his 1994 election campaign has yet to have profound effects on the economy.

The Colombian peso has suffered some selling, and active central bank intervention was needed to keep it within its established band.

Many business leaders believe the only way to avoid a long, debilitating process is for the president to step aside.

Some issues might require modification of the constitution, but the central issues related to the financing of political parties and to guarantees of all-party access to the media.

The fundamental economic variables are still in order, said Mr Juan Manuel Santos, a former trade minister.

The Colombian economy offers good opportunities for the long term, despite the current situation. But a lot of people are postponing investment decisions.

The government's growth forecast for 1996 is 4.5 to 5 per cent, with most private sector groups plumping for the lower figure.

not overwhelming, it's a question of deficits of 1 or 2 per cent of GDP, but it could build into a serious problem."

Tax reforms approved by Congress at the end of 1995 have not resolved the issue, says Mr Perry, and spending cuts are needed.

International prices of coffee, the traditional bulwark of the Colombian economy, have begun to edge up, but production costs are very high and farmers have debts they can't clear.

Some exports - particularly flowers - could suffer badly if the US decides to decertify Colombia's anti-drug efforts and the country loses trade and other privileges.

annual inflation down to 19.5 per cent last year, and this year's target is 17 per cent.

Portfolio investors will also be watching the stock market. Prices have been falling gradually since the end of 1994 and, for the present, local brokers are concentrating on fixed-interest, short-term paper.

Mr Bouchard appointed political veteran Mr Bernard Landry as minister of finance with responsibility for reviving the province's moribund economy.

Robert Gibbens, Montreal

AMERICAN NEWS DIGEST

Bouchard vows to tackle finance

Mr Lucien Bouchard, sworn in as Quebec's premier on Monday, said his priority was to get the French-speaking province's finances and economy in order.

Mr Bouchard, who was acclaimed leader of the ruling separatist Parti Québécois on Saturday, succeeds Mr Jacques Parizeau, who is retiring following the province's October referendum, which voted narrowly against independence.

Mr Bouchard appointed political veteran Mr Bernard Landry as minister of finance with responsibility for reviving the province's moribund economy.

Dole comes third in Alaska

Senator Bob Dole finished a poor third yesterday behind Mr Pat Buchanan and Mr Steve Forbes in a non-binding presidential "straw poll" of about 10,000 Republican voters in Alaska.

The Dole campaign dismissed the significance of the result, saying the senator had made no recent visits to the state. He had, however, secured the endorsement of most of the local Republican hierarchy, although that might not count for much in Alaska, which in recent years has been attracted to libertarian ideas.

Spy satellite agency 'loses' \$2bn

The secret US government agency that builds spy satellites lost track of more than \$2bn (\$1.3bn) in classified money, mostly because of its own secrecy, the New York Times reported.

The agency secretly spent \$300m on headquarters near Washington, an amount the Senate intelligence committee said in 1994 was a shock to discover. It was set up in 1980 but its existence was officially denied until 1982.

US banks win Peru telecom deal

JP Morgan and Merrill Lynch, the US investment banks, were yesterday selected to manage the sale of Peru's 29 per cent holding in Telefonía del Perú, the former state-owned telecom communications company acquired in February 1994 by Telefonía de España.

The Landmark London AS INDIVIDUAL AS YOU ARE. It doesn't matter to us how you get here, as long as you feel you've arrived. Anticipation, as the saying has it, is better than the realisation. Except, that is, when your final destination is The Landmark London. Here, at last, is a five star hotel that lives up to all your expectations. Built in 1899, and impeccably restored in 1993, it has all the visual pomp and circumstance of a grand London hotel. But, in terms of service, none of the pompousity. Instead, we treat you, our guest, the way you'd expect to be treated by your friends and colleagues - as an individual. So while our staff will always be friendly and helpful, they'll never be intrusive. In terms of service, individuality translates into choice. From the range of rooms we offer to the range of drinks in our Cellar Bar. Even in the way you dine. (With appropriate formality in our gourmet Dining Room. Or, more informally, in The Winter Garden). But then, that is what is so individual about The Landmark London. It's a relaxing and thoroughly pleasant place to stay. Which perhaps is not so surprising. When you're here, all we ask you to do is be yourself.

US sees threat to Gulf shipping from Iran missiles

Iran has tested and was about to deploy a new Chinese-made anti-ship cruise missile that represents a potential increased threat to oil shipping in the Gulf, the US Navy commander in the region said yesterday.

Vice Admiral Scott Redd, chief of US Navy forces in the Gulf, said Iran test-fired a Chinese C-802 anti-ship missile on January 8 from a ship in the Arabian Sea just outside the Gulf. He said the missile could be mounted on Iran's Chinese-made Houdeung fast patrol boats.

The admiral called the C-802, a substantial advance over older Chinese-made Silkworm anti-ship cruise missiles used by Iran in its Gulf war with Iraq nearly a decade ago.

US defence officials said the Pentagon had not seen any sudden recent increase in Iraq's military threat to Kuwait and other moderate Gulf states. "This is a new dimension... another dimension of the Iranian threat to shipping," the admiral said, noting that the mobile, radar-guided missile had a range of 60 miles. The missile was "in the deployment stage," he said. Admiral Redd said since 1994, Tehran had increased its naval strength with two Soviet-made Kilo Class attack submarines and five Houdeung boats.

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CITICORP U.S.\$350,000,000 Subordinated Floating Rate Notes Due November 27, 2005 Notice is hereby given that the Rate of Interest has been fixed at 5.6% in respect of the Original Notes and 5.6575% in respect of the Enhancement Notes, and that the interest payable on the relevant interest Payment Date February 29, 1996 against Coupon No. 123 in respect of US\$10,000 nominal of the Notes will be US\$45.11 in respect of the Original Notes and US\$45.82 in respect of the Enhancement Notes. U.S.\$600,000,000 Subordinated Floating Rate Notes Due October 25, 2005 Notice is hereby given that the Rate of Interest has been fixed at 5.6% and that the interest payable on the relevant interest Payment Date February 29, 1996 against Coupon No. 124 in respect of US\$10,000 nominal of the Notes will be US\$45.11. U.S.\$800,000,000 Subordinated Floating Rate Notes Due January 30, 1996 Notice is hereby given that the Rate of Interest has been fixed at 5.575% and that the interest payable on the relevant interest Payment Date February 29, 1996 against Coupon No. 121 in respect of US\$10,000 nominal of the Notes will be US\$44.91. January 31, 1996, London By: Citicorp, N.A. (Issuer Services), Agent Bank. CITIBANK

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Chancellor cautious on Emu pledge

By Robert Peston and Robert Chote

Mr Kenneth Clarke, chancellor of the exchequer, cautioned yesterday against any pre-election commitment to hold a referendum about the single European currency.

Mr Clarke conspicuously disagreed with fellow ministers who have been trying to mask divisions on Europe by the governing Conservative party by predicting that the European Union will soon postpone or abandon monetary union.

Mr Clarke said in an interview with the Financial Times that he "personally would leave whether or not people want a referendum to the time if and when monetary union is launched. He is resisting many cabinet colleagues who want the prime minister to pledge as part of the Conservatives' general election campaign that there would be a referendum on sterling joining a single currency if the cabinet decided to join. They believe this is the best way of bringing a long-term truce to the Conservative party.

As for the launch of monetary union, Mr Clarke said: "I actually don't think anyone knows whether it will go ahead on 1 Jan 1999". He warned other EU states not to relax the convergence criteria for monetary union, saying that Britain would not join if that were done. But he was dismissive of suggestions from other British ministers that relaxation, which would require a change in the Maastricht treaty, was likely.

"I have been to more meetings on economic and monetary union than all my colleagues put together and so far

Mr Douglas Hurd, the former foreign secretary, has joined the growing list of European statesmen calling for a postponement of the January 1999 starting date for a single currency. Mr Hurd calls on Germany to take the initiative in rewriting the Maastricht timetable for economic and monetary union. He acknowledges that Britain cannot request a postponement because it has no commitment to join. Other European governments fear that seeking a delay might amount to a confession of weakness. "Someone has to face reality," Mr Hurd adds.

Monetary union, Page 13

I have not ever heard anyone suggest any treaty changes."

Mr Clarke clings to old-style Conservative beliefs in the importance of spending on schools and the state health service. As for the US model of a developed economy where the spending is proportionately lower than in the UK, Mr Clarke noted that the price the US paid for low public spending was a healthcare system that absorbed one dollar in every five. "If you have to move to that sort of crisis-ridden private sector healthcare system in order to get your public sector spending down then I'm not in favour of it."

Mr Tim Eggan, the energy minister, yesterday became the 52nd MP in the Conservative party to announce that he will not stand for parliament at the next general election. He is known to have been deeply uneasy at what he thought was the petty nationalist drift of the party, although he denied that this was a reason for his decision to quit.

Irish peace prospects recover ground

By John Kempster, Chief Political Correspondent

Prospects for a consensus on elections to a new Northern Ireland convention appeared to increase last night after talks between Mr John Major, the British prime minister, and Mr John Hume, leader of the main nationalist party, the Social Democratic and Labour party. Mr Hume emerged from a 90-minute meeting at Westminster striking a surprisingly optimistic note which suggested that he had received hints from the prime minister of concessions on the details of a future convention.

Republic of Ireland, is expected to use a meeting with Sir Patrick tomorrow to voice his government's disquiet.

Mr Hume - who potentially has the most to lose in an election for which Sinn Féin would be able to call upon its extensive US-led financial donations - gave no indication last night that Mr Major had changed his mind. Mr Major's pledge to push through early legislation paving the way for elections to a convention pushed relations with the Irish government to a low ebb. Mr Dick Spring, deputy prime minister of the

hew, chief Northern Ireland minister in the British government.

Mr Gerry Adams, Sinn Féin president, remained unmoved following talks in Belfast yesterday with Sir Patrick Mayhew, chief Northern Ireland minister in the British government.

Accountancy: KPMG disclosures end more than a century of secrecy

Firm issues first detailed results

By Jim Kelly, Accountancy Correspondent

KPMG today becomes the first large accountancy firm in the UK to publish company-style financial results, thus ending more than a century of secrecy surrounding the big partnerships.

The firm, which has 8,000 staff and 600 partners, is unlikely to be followed quickly by its competitors among the so-called Big Six firms.

Mr Colin Sharman, senior partner with KPMG, said he felt "very comfortable" as the head of the only big accountancy firm revealing so much to clients, staff and the public. KPMG has moved to full disclosure because it would have had to reveal financial results for its audit business next year as it is turning it into a limited liability company.

The firm decided that it should disclose results for the whole business in the UK - and hopes financial transparency will give it a competitive advantage in a tight market.

For the year to September 1995 KPMG earned gross fees of £58.8m - up 6.8 per cent on the previous year. It distributed £10.6m of this to partners - around £18m as "proprietor-

Accounting at the top

KPMG partners and staff remuneration	1995	1994
25,001 - 50,000	12	12
75,001 - 100,000	132	132
125,001 - 150,000	75	87
175,001 - 200,000	25	17
225,001 - 250,000	18	12
275,001 - 300,000	1	1
325,001 - 350,000	2	2
375,001 - 400,000	1	1
425,001 - 450,000	1	1

Accounting at the top

Salary	£438,000
Pension	£125,000
Proprietorship profit	£176,753
Total	£739,753

ship profit" above a notional executive salary. This gave the firm's partners an average remuneration, taking into account pensions and what is in effect a shareholders' return, of £180,000 (£272,000). The proprietorship profit figure, which was 3 per cent of the gross fees, is the key one

for the sector. Significantly this return was 28 per cent lower than it had been in 1993-94. The firm's senior partner said there were "severe pressures on margins". One of the factors which dented profitability was an increase in non-audit and partner costs from £14.3m in 1993-94

to £16.3m in 1994-95. This was partly a result of rising legal costs such as insurance cover. A figure of £38m listed as "other creditors" includes provisions for future legal costs not covered by insurance.

"This helps to show that all the firms are probably finely poised," commented a senior partner with another big accountancy firm. This impression is confirmed by the size of the business' capital base at £31.55m - 65m of which is partners' capital and the rest undistributed earnings. While the figure may look low it caused little surprise among the rest of the Big Six.

The accounts do reveal tight control on borrowings, creditors and work in progress. "This is by and large a well managed firm," said a senior partner with another firm. One slight surprise was a £19.5m provision for empty properties where KPMG holds the lease.

When KPMG decided last year to meet the threat of rising litigation costs and help promote itself as the leading audit firm, it looked likely that other big firms would follow suit. Now they look more likely to register offshore.

Lex, Page 24

'Gulf War Syndrome' to be investigated

By Bernard Gray, Defence Correspondent

The government is to investigate "Gulf War Syndrome", a cluster of medical complaints suffered by veterans of the 1991 conflict.

The decision comes after stinging criticism last year from the House of Commons defence committee which accused the defence ministry of arrogance and failing to act quickly to respond to veterans' concerns. The ministry has also been criticised by veterans for failing to match the willingness of US authorities to investigate the problem.

Vice Admiral Tony Revell, the British military's surgeon-general, said yesterday that it was launching full-scale epidemiological studies to determine whether forces serving in the Gulf had suffered statistically abnormal health problems since the war. A team of seven senior doctors would also study claims by veterans that their children had suffered an abnormally high rate of serious birth defects. The ministry would work closely with the US to avoid duplicating research effort.

Mr Nicholas Soames, the armed forces minister, strongly rejected accusations that the ministry was responding to pressure late. Vice Admiral Revell said the ministry had examined 360 veterans and had failed to find a single source of their complaints. But he admitted that those examined were genuinely ill, and that it was still possible for the variety of different complaints reported to have originated from a cocktail of vaccinations.

Veterans have claimed that the mix of up to 10 different vaccinations given at once, combined with drugs taken by soldiers to protect themselves against nerve gas, were tried in such large combinations and are responsible for their health problems. The ministry thought reactions to the cocktail were unlikely to be responsible for any problems.

Of the forces serving in the Gulf, only British, US and Canadian troops were given the anti-nerve gas pills, and these veterans have reported most of the health problems. Admiral Revell said that the US had so far examined 17,000 veterans who had complaints, and that no single syndrome had emerged in those cases either.

Education: Political furore highlights escape routes from poorly performing schools

Agonising choice often confronts parents

By John Authers in London

The inner London borough of Southwark faces the City across the River Thames, its poverty contrasting sharply with the wealth of the financial quarter opposite. That poverty means that parents in the borough face an agonising choice when picking a secondary school for their children.

They have three options: send the child to one of the area's poorly performing comprehensive schools (all pupils accepted irrespective of ability); opt for a grammar school (children selected according to academic ability) in a neighbouring borough, probably entailing long journeys for their children; or pay heavy fees for a place in an independent school outside the state education system.

Comprehensive schools were invented by the Labour government of the 1960s - although most comprehensives were created when Lady Thatcher, who was later to become prime minister, was Conservative education secretary.

University vice-chancellors are set to end free higher education next year by charging new students a £300 (£453 "registration levy" if government capital funding cuts are not reversed. The vice-chancellors' central policy board agreed the move but stressed it would be made only "extremely reluctantly". Students reacted angrily to the announcement. Funding for universities will fall by 9.4 per cent between the present financial year and 1998-99, but the greatest concern has been caused by the cut to the universities' capital budget, announced in November's Budget, from £250m to £243m. Ms Diana Warwick, chief executive of the Committee of Vice-Chancellors and Principals, which

represents the heads of all UK universities, said: "As responsible managers, if the government will not provide the resources, we have to find long-term funding from somewhere."

But Mr John Major, the prime minister, said in the House of Commons: "I see no need for universities to introduce top-up fees. They certainly cannot complain about how they have been treated by the government. Between 1989-90 and 1993-95 university funding rose by 23 per cent over and above inflation." But the committee retorted that "the real issue is that the resources for teaching each student fell by 25 per cent over the same period because of a 45 per cent increase in student numbers."

Southwark is one of the most economically deprived parts of London, and more than half the pupils at the borough's schools qualify for free meals. But Mr Gordon Mott, Southwark's education director, refuses to use such factors as an excuse. "The evidence is there that we could do better, and we must try to do that."

He points instead to the borough's almost unique position in having within its borders three of London's best-known and most successful independent schools - Dulwich College, Alleyn's and James Allen's Girls' School. Dulwich College receives more in subsidies from the government's Assisted Places Scheme for children from low income families than any other school in the country. Under this scheme, which would be abolished by a Labour government, academically able children are subsidised to go to independent selective schools.

This gives Southwark parents an escape route to them in other London boroughs.

They also have the option of following Ms Harman's strategy by sending their children to one of the two grammar schools in neighbouring Bromley. The flow of middle-class children out of schools in boroughs such as Southwark helps to depress the performance of their comprehensives, according to Mr Tony Cobb, director of studies at Leicester University's Centre for the Study of Comprehensive Schools.

Nationwide, comprehensives are by far the most common type of secondary education. Only 7 per cent of children are educated privately, while only 160 grammar schools remain out of a total of about 4,000 English state schools. But selection within schools is widely practised according to Professor Michael Barber of the University of London's

Institute of Education, and an adviser to Mr Tony Blair, the Labour leader. Most comprehensives practise "setting" - dividing children on ability in different subjects. Some use "streams", where children are divided on ability into the same classes for all subjects. Schools which attempt to make each class mixed ability are in the minority, he says.

"Comprehensives aim to treat all children equally and give them equality of opportunity," says Mr John Dunford, the head of the highly successful Durham Johnston comprehensive in the northern England city of Durham. "Treating all children the same would not be treating them equally - some need more pressure than others; some need more support."

Even in Southwark, where many secondary schools once rejected any form of selection, schools now recognise that children with different abilities should be treated differently. As Mr Mott says: "I do think the conventional wisdoms about setting and streaming are being set aside. Our schools now set. The task they face in terms of breadth of ability is such that it's unreasonable to expect a very good teacher might be able to handle all abilities in a class, but it's unreasonable to establish a system which is dependent for its successful delivery on the presumption that everyone will be excellent. It doesn't work like that."

Underwriters welcome low claims



Insurers warn of threat to profits

Fears of a marked downturn in the international insurance industry intensified yesterday with a gloomy report by London-based marine insurers warning that excess competition is threatening profitability, our Insurance Correspondent writes.

The Institute of London Underwriters said recent improvements in insurers' results, "may well prove short-lived... if some irresponsible underwriters do not halt their lemming-like rush to the cliff-top".

Mr Len Campbell, who is standing down as ILU chairman, said: "Underwriters in London and other markets have weakened their resolve to avoid the disastrous competition that caused such havoc in our industry only five years ago. If current trends persist, profitability may disappear and reserves wither for all but a few."

Capital idea to revamp tourism

By Scheherazade Daneshkhu and Diane Summers

London's year-long search for a brand identity to spearhead a new £2m (£12.08m) tourism marketing drive ended yesterday when the new logo was unveiled.

The London Tourist Board, which is leading the campaign to promote London as a tourist destination said the new image, designed by London-based Beresfords at a cost of about £200,000, would project a "more contemporary and vibrant image of the city" instead of traditional images of heritage and pageantry.

Research commissioned by the London Tourist Board showed London was seen as a "living museum" with a lack of awareness of its modern side. "Too many people have an out-dated image of London and

yet it is at the cutting edge of fashion, music, nightlife and eating out," said Mr Colin Hobbs, managing director of London Tourist Board. "It is precisely these elements that need far greater emphasis, particularly in targeting the new and younger fast-growing markets across the world."

The campaign to promote London as the gateway to Britain is aimed at reversing the city's loss of share in the world tourism market. Between 1988 and 1994, spending by visitors to the capital grew at 8.6 per cent - less than half the world average of 12 per cent.

The Department of National Heritage and the British Tourist Authority have each put in £2m over two years towards the campaign, with the other £8m to be matched from the private sector.

UK NEWS DIGEST

Business warned against rushing into takeovers

Mr John Bridgeman, director-general of fair trading, warned companies against rushing into takeovers, saying that they rarely generated the hoped-for benefits. He said in his first big speech since taking office last year that the costs of many mergers frequently outweighed the gains. He also expressed particular concern about bids in the utilities sector, which has seen several recent takeovers. He said management skills were not readily transferred from one sector to another.

He said this concern had last year led him to request Mr Ian Lang, the trade and industry secretary, to refer to the Monopolies and Mergers Commission the bid by North West Water for Norweb, the electricity company. Mr Lang rejected the request and cleared the deal. Mr Bridgeman was speaking at a time when City interest in bids and deals is running high in the wake of Granada's successful £3.9bn (£5.3bn) acquisition of Forté, the hotels group. Mr Bridgeman said that, while mergers could improve the efficiency of the economy by transferring assets from ineffective to effective management, this aim was not always achieved. *Stefan Wagstyl, Industrial Editor*

Rail acquisition probe ruled out

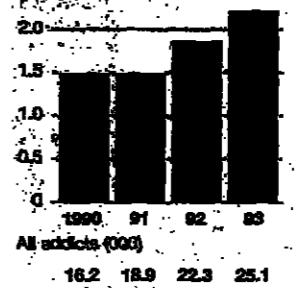
The trade and industry department said it would not refer the acquisition of European Passenger Services, operator of Eurostar trains, by the London & Continental Railways consortium to the Monopolies and Mergers Commission. The consortium which wins the bidding for the £3bn (£4.53bn) Channel tunnel high-speed rail link between England and France would take over EPS as part of the project. The transport department said monopolies clearance was routine and did not mean that L&C had won the bidding. Eurostar, the rival bidder, said clearance of the L&C bid did not mean its own offer had been rejected.

The L&C consortium consists of Ove Arup, Bechtel, Sir William Halcrow, National Express, Virgin Group and S.G. Warburg. Eurostar comprises BICC, HSBG Holdings, National Westminster Bank, Seaboard and Trafalgar House. Managers at Chiltern Railways have teamed up with John Lang, the construction company, and 31, the development capital group, to bid for the passenger train franchise of their line - the ninth to be offered for sale. The bidding group, M40 Trains, has placed a notice in the European Union's Official Journal seeking offers for between six and 30 diesel-powered coaches. Chiltern Trains operates one of the lines between London and Birmingham. *Charles Batchelor, Transport Correspondent*

Call for drug service changes

Increasing addiction

Number of addicts aged under 21 (000)



All articles (000)

Source: Home Office

The state health service is not properly addressing the issue of drug and alcohol abuse in young people and lacks the specialist treatment and advisory services required to deal with the problem, says the Service's Health Advisory Service. The non-departmental public body warns that the availability of suitable services was "poorly planned and poorly co-ordinated" in spite of steady growth in the number of younger drug and alcohol abusers. It condemns "a lack of leadership" from statutory health agencies and calls for new educational programmes to highlight the dangers of drug use and greater collaboration between different agencies. *Mark Szeman, Public Policy Staff*

'Mad cow' fears hit beef sales

Consumers are still shunning beef because of the scare over "mad cow disease", with latest figures showing a 17 per cent drop in retail sales in the month to January 30. The figures from the Meat and Livestock Commission conflict with its earlier predictions of a recovery from the sharp drop in sales in the final two months of last year. Year-on-year sales fell by over 15 per cent between mid-November and mid-December and by 5 per cent in the preceding four weeks. Earlier this month, the commission launched full-page advertisements in national newspapers, in collaboration with leading supermarkets, assuring people beef was safe to eat. *Alison Millard, Resources Staff*

Weather office to cut jobs

The Meteorological Office wants to cut 450 jobs - about 20 per cent of its staff - over the next five years. Other employees may be asked to relocate as more functions are centralised at the head office at Bracknell about 60km west of London. Jobs in junior grades are believed to be particularly at risk because of cost-cutting and changes in technology. The defence ministry provides about 60 per cent of the Met Office's £150m (£225m) annual budget. *Clay Harris*

Forget the classless society

Forget the classless society. If you want to be rich, choose wealthy parents. If you start life at the bottom, bad luck. So conclude researchers at the Institute for Fiscal Studies in an investigation of the persistence of poverty and affluence between generations. The study, one of the first to examine earnings at various stages of life, is based on the UK's National Child Development Survey, which tracks the fortunes of a sample of 20,000 people born in 1958. At the bottom end, taking two fathers who a generation ago earned £10,000 (£15,100) and £20,000 a year in today's prices, the son of the poorer father grew up to earn an average of £7,000 a year less than the son of the richer father. *Andrew Adonis, London*



National heritage minister Virginia Bottomley rides in a London taxi to launch the capital's "more vibrant image"

ARTS

Television/Christopher Dunkley

Babes who wannabe boys

All of a sudden commercial television seems to be full of female yobs: young women who refer to themselves with mannered irony as "babes" and "grrlles".

It must be admitted that, so far anyway, none of these programmes begins transmission before 11.00 pm, most start after midnight.

However, poor Simon - the cost-containment with a 34-inch inside leg. to proceed such a success in the "Suck It And See" section where the lads had to suck the lasses' toes, who strutted his stuff in a posing pouch to a cacophony of girly squeals, and who finally triumphed as this week's Stud-U-Like - chose as his date Joanne, the sweetie he had bowled over in the "Charm Or Smarm" chat-up test.

As it happens, however, there is a real balley baw on this show: presenter Davina McCall who has bags of chutzpah, a loud voice, and a quick wit as well as long legs, a short pink mini, and clearly no need for a Wonderbra.

There are some artistic projects that are really better left on the drawing board.

There are some artistic projects that are really better left on the drawing board. King Lear, The Musical, seems like one of those projects that are really better left on the drawing board.

Of course, there must be many of us who, while watching po-faced performances of Lorca, have heretically thought he should be played for laughs.

Theatre Manjiana, directed by experienced mime artist Nola Rae, wip through the story using a few dozen words and a great deal of physical gusto.

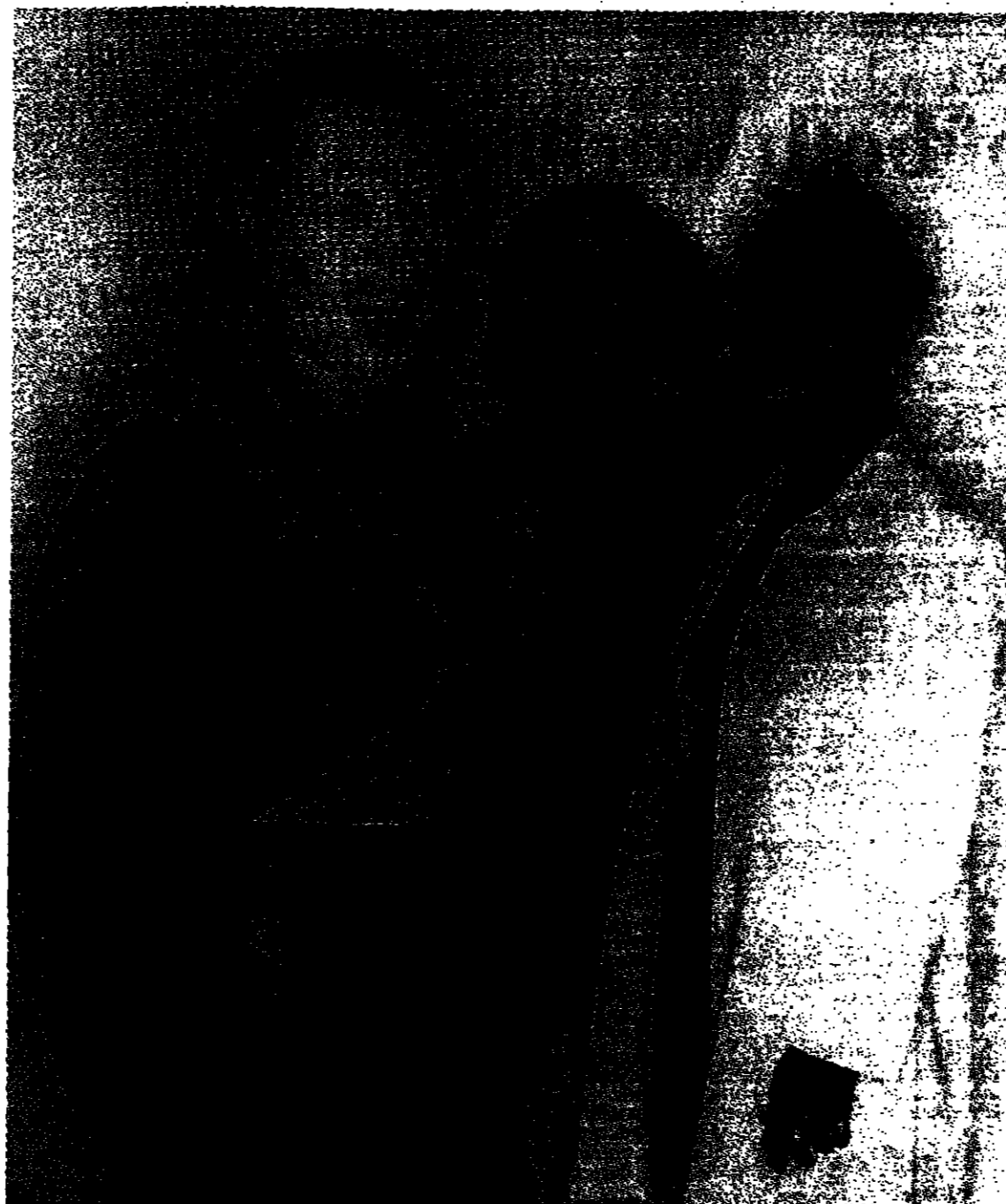
the classic error of whipping up a fervour of high expectation, achieving massive press coverage, and then failing to deliver the goods.

Much was made of the fact that the producers had forgotten to arrange a work permit for their chief presenter, a lanky American with a fashionable reputation for lesbianism and a metal rivet through her lip which is presumably the cause of her slight speech impediment.

The show's theme was men's underpants and their contents. The babes said "wille" and "stag" a lot, and clucked in the f-word often enough to establish their bona fides.

These girly programmes appear to be the natural outcome of that gloriously illogical branch of feminist philosophy which starts out by vilifying men and masculine values, proceeds to proselytise female values and all the womanly virtues, and concludes that the way forwards is for women to become more like men: stop raising children, put on a hard hat, wear trousers, tell dirty jokes and so on.

But then much of this show is simply a Top Of The Pops re-hash, latest in an endless line of such shows in which babes with skimpy clothing



All part of the dumbing-down process: 'The Girlie Show'

the weekend culture show, Hotel Babylon, is presented by a babe who looks the part - Dani Behr, previously presenter of The Word - but who is scarcely god's gift to interviewing.

There seems little point in getting American film director and black icon Spike Lee out to some ancient pile in the country in order to have Ms Behr ask "Compared to every film you've done, all the movies you've made, which one do you look back on which gives you the most satisfaction?"

But then much of this show is simply a Top Of The Pops re-hash, latest in an endless line of such shows in which babes with skimpy clothing

so, presumably in the mid 1970s. At that time it would have been seen as a fond and fashionable throwback to the Doris Day fifties. Today it just looks passé.

Hotel Babylon may be spending something on its location and The Girlie Show sent a camera critic of some sort to do its "Tulip Talk" item somewhere away from the studio. But generally speaking one of the huge attractions of these programmes for the accountants who now run television must be their wonderfully low costs.

London Mime Festival/Sarah Hemming

Clowning about with Lorca

Renée Samuelson as a Chaplinesque little figure: small, pudgy-faced and mobile-footed, kitted out with a pair of unnaturally long circus boots and a determined air of malevolence.

There are some inspired moments and entertaining images - Pepe el Romano, the object of the daughters' desire, is portrayed by a man's over-

tones about his or her inner shortcomings, then climbs in through the washing machine door.

What is going on? Are we in the laundry room of some giant hotel? In a futuristic society? A lunatic asylum? Purgatory? While the group becomes more and more inventive, shrinking and growing and spurring out green jelly to back-projections of religious paintings, many of us are still labouring hopelessly at interpretation.

Black Mime Theatre's new show, Dirty Reality II, is an impressive attempt to deal with the complexities of black-white relationships through physical theatre.

People Show 101 tours to Wolverhampton, Coventry, Southport, Cardiff and Crawley (information on 0171-729 1841); Dirty Reality II continues at the Cochrane Theatre, London WC1 to February 3 (0171-243 7040).

Theatre/Alastair Macaulay

Black soap

The Pulitzer-Prize-winning black American playwright August Wilson has been at work for some 15 years on a series of plays about the experience of blacks in the US, each play covering a different decade of the 20th century.

The action occurs in Pittsburgh in 1969, and the locale - perfectly achieved in Eileen Cairns's evocative decor - is a standard American diner: "Lee's Diner", set on a corner, with high stools around a curving bar, a jukebox, and windows facing out on the streets.

Brief quotations cannot catch this. You have to hear whole speeches made up of simple lines like "Found me some water. Made me a nice little crop", and to hear the tonality and vigour with which they are uttered, to appreciate the main life of this play.

Not that that matters much. Two Trains Running is a sentimental affair. It spends much of its time making you feel that all seven of its characters really deserve a great big hug. Offstage there are rallies for black power; Malcolm X is talked of like Christ. Martin Luther King like St Paul. But mainly we just learn to love these guys onstage. The dialogue is often often funny, even on racial problems.

All of these blacks have their problems - even the beautiful Risa has disfigured her legs with slashes because she got sick of men pursuing her for her looks - and all of them are lovable.

Recital/David Murray

Pianist dreams on

Lars Vogt came a distinguished second - to Arthur Schnabel - at the last Leeds Competition but one. I admired his playing warmly then, though I wondered whether he might not soon be tempted into conducting: his creative musicianship seemed to aim beyond the limits of the keyboard.

But Vogt has stayed with the piano, performing around the world and recording concerti with Simon Rattle; and on Sunday he reappeared in the Queen Elizabeth Hall's "International Piano Series". It was a mixed pleasure. He began with three preludes by Henri Dutilleul, gently suffused with the sense of mystère that the 80-year-old composer has cultivated in all his later works.

Often he came close to realising Debussy's ideal of a "keyboard without hammers", the sounds effortlessly emitted rather than struck. Nothing could suit Dutilleul better; but what Vogt played next was a half-dozen of Schubert's Moments musicaux, D.780, also treated to spectral half-lights, and to heedlessly imaginative rubato. They were fascinating, crammed with personal feeling - and there were passages in which one lost any sense of where the downbeats came. That would be odd in any phase.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

EXHIBITION Rijksmuseum Tel: 31-20-6732121 Saved for the Nation. The Collection of the Royal Antiquarian Society: exhibition of works from the collection of the Royal Antiquarian Society, originally founded in 1858

ATHENS

CONCERT Thess Concert Hall Tel: 30-1-7282333 New Hellenic Quartet perform ring quartets by Puccini, Cherubini, Spigini and Verdi; 8.30pm; Feb 5

BERLIN

EXHIBITION Bauhaus-Archiv, Museum für Gestaltung Tel: 49-30-2540020 Umbo - Vom Bauhaus zum Bleikristallismus: exhibition devoted to the work of Bauhaus photographer Otto Umbreit (Umbo), who is especially known for his portraits, views of Berlin, and photo reportages.

CHICAGO

CONCERT Civic Opera House & Civic Theatre Tel: 49-30-3438401 Faust; by Gounod. Conducted by John Nelson and performed by the Lyric Opera of Chicago. Soloists include Richard Leach, Samuel Ramey, Renée Fleming and Dmitri Hvorostovsky; 7.30pm; Feb 2, 5

COLOGNE

CONCERT K&N Philharmonie Tel: 49-221-2040820 K&Ner Rundfunk-Sinfonie-Orchester; with conductor Zdenek Macal perform works by Wagner, Mozart and Schubert; 8pm; Feb 3

GENOA

CONCERT Teatro Carlo Felice Tel: 39-10-589329

HAMBURG

OPERA Hamburgische Staatsoper Tel: 49-40-351721 Madame Butterfly; by Puccini. Conducted by Sebastian Lang-Lessing and performed by the Hamburg Oper. Soloists include Miriam Gauß, Vvi Jšnicka and Hanna Kroger; 7.30pm; Feb 3

LAUSANNE

DANCE Théâtre de Beauséjour Tel: 41-21-6432211 Les Ballets de Monte Carlo; perform the choreographies The Prodigal Son by Balanchine to music by Prokofiev and Shéhérazade by Fokine to music by Rimsky-Korsakov; 8pm; Feb 3, 4 (8pm)

LEIPZIG

OPERA Oper Leipzig Tel: 49-341-1261261 Kalya Kabanova; by Janáček. Conducted by Jiri Koucký and performed by the Oper Leipzig with the Gewandhausorchester. Soloists include Julia Juon, Clary Bartha and Jörg Schömer; 7pm; Feb 3

LONDON

CONCERT Wigmore Hall Tel: 44-171-9352141 Peter Katin; the pianist performs works by Schubert, Beethoven,

NEW YORK

CONCERT Alice Tully Hall Tel: 1-212-875-5050 Takacs String Quartet perform Schubert's String Quartet No.13 in A minor (Rosamunde), Bright Sheng's String Quartet No.3 and Beethoven's String Quartet in E minor, Op.59 No.2; 2pm; Feb 4 Carnegie Hall Tel: 1-212-247-7800 St. Petersburg Philharmonic Orchestra; with conductor Mariss Jansons and pianist Emanuel Ax perform the overture to Weber's Euryanthe, Beethoven's Piano Concerto No.3 in C minor and Rachmaninov's Symphonic Dances; 3pm; Feb 4 The Metropolitan Museum of Art Tel: 1-212-879-5500 Michala Petri and Lars Hannibal; the recorder-player and guitarist/

ROME

CONCERT Accademia Nazionale di Santa Cecilia Tel: 39-6-3611084 Guarnieri Quartet; and violinist Kim Kashkashian perform string quartets by Haydn and Brahms; 8.45pm; Feb 2

SALZBURG

CONCERT Grosses Festspielhaus Tel: 43-662-80450

VALENCIA

CONCERT Palau de la Música i Congressos Tel: 34-6-3375020 Orquesta de Valencia; with conductor Manuel Galdut and violinist Uto Ughi perform Brahms' Violin Concerto in D major, Op.77, and Beethoven's Symphony No.5; 8.15pm; Feb 2

VIENNA

DANCE Wiener Staatsoper Tel: 43-1-51442960 Manon; a choreography by Kenneth MacMillan to music by Massenet, performed by the Staatsopemballet; 7.30pm; Feb 2

WASHINGTON

JAZZ & BLUES Terrace Theater Tel: 1-202-467 4600 Hank Jones; performance by the jazz pianist. Once sideman with Charlie Parker, Billie Holiday, Coleman Hawkins, Lester Young, Benny Goodman, Quincy Jones, Miles Davis, and Ella Fitzgerald, Jones went on to conduct the CBS Orchestra and the Broadway run of Ain't Misbehavin'; among other activities; 7.30pm; Feb 2

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COMMENT & ANALYSIS



Edward Mortimer

Worst of both worlds

Five years after the Gulf war, Saddam is still leading Iraq, and still keeping the world guessing about his real intentions

Five years ago Desert Storm was raging. Each night brought a hail of bombs and missiles down on Iraq, smashing the infrastructure of what had been (thanks to its rare combination of oil and a large, well-educated population) one of the Arab world's most advanced economies.

George Bush, then US president, had proclaimed the new world order, and had designated Saddam Hussein as the new Hitler, calling on Iraq's army and people to rise up and overthrow him.

Saddam was defeated. Once allied forces moved forward on the ground, his army fled from Kuwait almost without a struggle. Bush called a ceasefire, taking his own commanders by surprise, as they admitted in a TV documentary earlier this month. None favoured occupying Baghdad, all regretted they were not given time to encircle and disarm the retreating army.

Bush had hoped Saddam's overthrow would spare him the need for a ground operation to liberate Kuwait from its Iraqi invaders. The Iraqi people failed to grasp this point. They thought Bush shared their objective of liberating Iraq, and they chose what seemed the most favourable moment to rise up for that purpose, after Saddam had been defeated in Kuwait.

They got no help: neither weapons, fuel, food, medicine nor even public encouragement, although the victorious allied army was only a few miles away. When Saddam used helicopter gunships to attack the rebels, Bush's spokesman, Martin Fitzwater, confirmed that this was "OK" because it was not prohibited by the ceasefire agreement (which allowed Iraq to use helicopters for humanitarian and administrative purposes).

Only weeks later, when Iraqi Kurds were pouring over the Turkish border, did western forces enter northern Iraq and establish a "safe haven" of limits to Saddam's aircraft and troops. This still precari-

ously exists, though crippled by a double embargo: the outside world treats it as part of Iraq and therefore subjects it to sanctions, while Saddam withholds supplies because it is not under his control.

A southern no-fly zone was added in 1992, but this is no safe haven: it does not inhibit Saddam's use of ground troops. In southern Iraq as in central Iraq, Saddam still rules, blaming the west for the appalling conditions in which his people live. Many accept this explanation - including some ingenious, and some less ingenious, westerners.

Among the latter are Iraq's creditors and would-be suppliers; among the former are churchmen and aid workers who return from Iraq with harrowing tales of malnourished children and hospitals without drugs or anaesthetics. They call for sanctions to be lifted, often ignoring the fact that food and medicine deliveries have never been embargoed. Iraq apparently lacks the foreign exchange to pay for them, although not for rebuilding Saddam's palaces and re-equipping his army.

The UN security council has passed resolutions allowing Iraq to raise money for humanitarian supplies by selling limited quantities of oil - provided a share is spent on war reparations, and another share goes to the Kurds. Sad-

dam has rejected these resolutions, but now says he will negotiate on the latest one. The news has rattled the oil market, and momentarily restored some purchasing power to the Iraqi dinar.

Talks will begin next week. But Saddam's chosen delegate is a middle-rank diplomat who will be given no leeway to negotiate. Few experts believe Saddam is really prepared to accept the UN's terms. If he did, the real income of ordinary Iraqis would be quadrupled, with the UN controlling the distribution of supplies. The difference in standard of living between Saddam's security forces and the rest of the population would be drastically reduced, as would the black market on which he and his cronies thrive. The mechanisms by which he controls the population might be fatally undermined.

Under renewed pressure from his former ally, King Hussein of Jordan (who has moved to restrict trade with Iraq and has been talking to Iraqi opposition leaders in London), Saddam has once again got the world guessing about his real intentions. As usual, he is playing for time, while staving off the most immediate threats. The security council had mooted the idea of sending a commission to investigate the humanitarian situation. This was pro-

posed by France, one of Iraq's leading creditors, which wants sanctions lifted, or at least eased. The US and UK, however, insisted the commission must not only describe the situation but say who was responsible for it. Saddam would not welcome that. By offering to negotiate, he has ensured the commission idea is shelved.

So the stalemate goes on. In the north, an agreement has been reached between the two rival Kurdish parties, which until last summer were fighting each other. It provides for a peacekeeping force, to be formed by the Iraqi National Congress, an umbrella body to which both parties are affiliated. The US has promised to find resources for this.

Last March the INC did organise, with the help of one of the Kurdish parties, an offensive against Saddam's forces in the north. It had some success, but soon stopped, mainly because the other Kurdish party refused to join in, and the west again gave no support. Both the INC and its western backers were divided about the wisdom of such an offensive. Those against say the only hope for a change of regime lies in a military coup, and that the INC should encourage this by befriending the army, not attacking it.

But this was the logic that led the US to withhold support from the uprisings in March 1991. "Let the army defeat the uprisings, then it will turn on Saddam," was the experts' advice. The army defeated the uprisings, and five years later Saddam is still there.

Sanctions have been successful in "containing" Saddam within Iraq's borders. That is little consolation to Iraqis who have the worst of both worlds, suffering from sanctions and from his arbitrary rule. Increasingly they suspect that the west's aim is not to help them overthrow Saddam but to keep him in office as long as possible, as a way of keeping Iraq weak.



Saddam: sanctions have contained him within Iraq

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

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Priority should be for British Council

From Mr Bernard Simon

Sir, As a former British Council scholar from Belgium, I add my voice to yours ("Penny wise", January 30) in defending the role of the council in promoting UK interests.

As a case study, mine is specific and quantifiable. The small investment in my graduate education (£2,500), which was divided between me and a medical student from Luxembourg, earned the Treasury a good multiple of that sum in taxes and National Insurance (excluding rates, consumption, interest and banking services), two sons in British private schools, and a very modest contribution to British merchant banking in the far east. My wife, moreover, is British.

The dedication and wisdom of the director of the British Council in Brussels at the time, Mr David Jenkinson, was behind this shrewd investment decision, let alone the goodwill created. His budget was being reduced progressively, with a responsibility for Belgium and Luxembourg. There were two deserving candidates, in his view, so he allowed us to share the bursary. It is the sum total of these wise acts, by the poor relations of the diplomatic service, that should spur the latter into becoming more sensitive to the trade realities of today's world, or face a shake-up.

The priorities should be put right: reduce idle diplomatic staff, protect and expand the budget of the British Council so that British trade may thrive. Mr David Howell's view should prevail.

Bernard Simon, senior analyst, UBS Securities, 2-2-2 Otemachi, Chiyoda-ku, Tokyo 100, Japan

Tax on grain exports from the EU is the only rational move

From Mr Douglas Hogg MP

Sir, I was surprised at your criticism ("A missed chance", January 29) of the decision by the EU agriculture commissioner Franz Fischler to introduce a tax on grain exports. I think it is wide of the mark.

The EU's problem with cereals, as for other important products, has always been big surplus production that had to be exported with expensive subsidies.

In 1992 the EU cut grain support prices, introduced cash payments to farmers to compensate for the cut, and went in for set-aside. The aim was to enable it to live within the General Agreement on Tariffs and Trade-imposed limits on subsidised exports.

That is not the British government's notion of an ideal policy. But it was where Mr Fischler had to start from in deciding how to react to the sharp rise in world grain prices that have taken them above the EU support level.

You say that, instead of an

export tax, set-aside should have been relaxed or the compensation payments reduced. On the first, you seem to forget that crops take time to grow. Grain now available on the EU market was sown in the autumn of 1994. The Agriculture Council did reduce set-aside for that crop.

Had it been able to foresee the high world prices that materialised a year later, no doubt it would have made a bigger reduction, secure in the knowledge that the surplus could be exported without subsidy. But it was not so omniscient. Last autumn, the set-aside requirement was cut further; but, of course, the grain will not become available until this summer.

On the second, I have recently written to Mr Fischler drawing his attention to the massive over-compensation to farmers resulting from the fact that EU market prices have fallen by much less than expected when the compensation payments were set in 1992.

I very much hope he will recommend the Agriculture Council to reduce the payment rates. But this would only take effect from the next crop: the payments on the 1995 crop have already been made.

So what should be done here and now? Surely an export tax, which benefits consumers and reduces the degree of over-compensation to farmers, is an entirely rational move. Should we really signal to consumers that the Common Agricultural Policy can never work in their favour because they must always pay the EU support price or the world price, whichever is the higher?

I would very much welcome cereal farmers being fully exposed to world price movements. But I can see no point at all in an exposure that goes in one direction only.

Douglas Hogg, minister of agriculture, fisheries and food, Whitehall Place, London SW1A 2HH, UK

Constraints to development of Internet

From Professor Ipppei Wakabayashi

Sir, Your article "Drowning, not surfing" (January 22) was interesting and suggestive, and Mr Michael Beirne's critical comment "Japan may have been slow to catch Internet fever but it will make good its promise in 1996" (Letters, January 24) is persuasive on some points. The present Net culture is changing rapidly as indicated by Mr Beirne, but towards where?

This is the very point. The Net is changing constantly. Most people have a strong need to join in the Net culture, but the present Net culture prohibits it. Why? Because today's Net culture is mainly based on the PC culture that started from the hobbyist sub-culture in the 1970s and

has grown up into the present sophisticated systems. Ordinary users enjoy no more than a small, limited part of it. Only professional or manic users can fully enjoy such culture.

Ironically, we know many "professional" PC users are suffering from problems with bad user interfaces: the sudden freezing of the desktop screen, and the unworkable and suddenly-occurring system crash. I am sorry, but Macintosh is no exception. The majority of people prefer support this kind of PC culture. They support really easy-to-use systems like TV, VCR or microwave equipment. Their needs will make the next Net culture and create new, easy-to-use equipment and popular programs.

The Net culture was born in the US and Europe, and has been spreading out to the rest of the world. In the 21st century it will enter the next stage, where more than 2bn people enjoy it, including the world's largest populations, China and India. Japan has succeeded in making new consumer products like "Netkaraoke" or "Net Nintendo", but on the other hand many newcomers will be able to ride the next surf using the new Net environment.

Ipppei Wakabayashi, Faculty of International Studies, Bunkyo University, 1100 Namegaya, Chigasaki, Kanagawa 253, Japan

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FINANCIAL TIMES Newsletters & Management Reports

Hidden champions take a bow

A new book tries to find out why small companies are Germany's success stories, says Andrew Fisher



Competitive advantages of "hidden champions"

Factor	Percentage of "hidden champions" citing these factors
Product quality	38
Technology/innovation	16
Product line integration	15
Service	12
Customer-specific solutions	10
Value for money	7
Sales/distribution	4
Diversification	3
Design	3
Ecology	3
Price	3

Some of Germany's world market leaders

COMPANY	PRODUCT	TURNOVER (DM)	EMPLOYEES
SAP	Business software	1,800	5,000
Aesculap	Surgical instruments	825	4,500
Hilti & Muller	Cold rolled steel	500	1,500
Ex-Cell-O	Machine tools	450	1,300
Märklin	Model railways	220	1,700
Arnold & Richter	35mm film cameras	185	700
ASS Grünland	Potting compost	161	465
Mathis, Holmer	Harmonicas, accordions	160	1,050
Greinerbach	Glass handling equipment	100	450
Heraeus & Söhne	Telescopes, binoculars	90	957

Source: Hidden Champions

Germany's most successful companies are often its minnows rather than its giants. While the names of such multinational concerns as Siemens, Volkswagen and Daimler-Benz commonly symbolise the might of the German economy, it is the myriad smaller and medium-sized (Mittelstand) companies that provide the real impetus behind exports, economic growth and jobs.

Hermann Simon calls them the "hidden champions". Many of these companies, of which he has discovered more than 800, have world market shares of between 70 per cent and 90 per cent. Few big companies can even dream of this. In his new book, also to be published in the US, he subjects this layer of industry to intense scrutiny.

He is also, however, concerned about its future. The best companies will survive, but high taxes, bureaucracy and the financial burden imposed by Germany's generous social security system will push many to expand even more rapidly abroad. Their growing worldwide presence will help create new jobs at home.

Yet Simon - a former management lecturer at Mainz university who now heads the Simon, Kucher & Partner consultancy in Bonn - sees "serious dangers" for the Mittelstand, around which a debate has recently flared up concerning tax rates, investment incentives and innovation.

The book deals with the companies rather than the system within which they operate. But Simon admits he is pessimistic about whether government concern over jobs and economic stagnation will result in much action. "Millions of Germans have got used to support from the state," he says. Thus he doubts whether enough will be done to cut the social security budget and reduce the levies which add to industry's costs.

Through their very determination, the companies studied by Simon have so far managed to deal with such impediments. Some of his champions are really hidden. Outside their own - often highly specialised - sectors, many are barely known. For instance, Hauni leads the world market for cigarette machines with a 90 per cent share. Tetra holds more than half the world market for ornamental fish food. Others with dominant positions in their often esoteric markets include Binhold (anatomical teaching aids such as skele-

tons, Götz (dolls) and Aixtron (coating plants for semiconductors). Simon's champions also include some companies which are well-known in German industry: SAP, the fast-growing business software producer, Märklin (model trains) and Leybold (coating and vacuum technology).

What characterises all these companies - defined by being number one or two in the world market or first in Europe and having a turnover below DM1.5bn (\$1bn), with a few exceptions - is a strong commitment to be the leader of their field, and even to define the very nature of their market. As well as producing innovative products, they take pains to ensure quality, follow-up service and punctual delivery and repair. Reliability is vital to their success.

Simon decided to try to discover the root causes of these champions' success. The main requirement seems to be sheer obsession. "The hidden champions strive for market leadership - nothing else." And they are tireless in seeking this goal, over decades if necessary. They are also extremely innovative, frequently producing technological breakthroughs. Such star companies tend to have several times as many patents as big companies, measured by size of workforce. But they focus with equal intensity on technology and marketing. Closeness to customers is an obvious attribute. But they also watch their rivals like hawks.

Showing how excellence can breed imitators, and thus competitors, Simon notes that top companies in specific fields are often in the same town or region. He cites the examples

of Würth and Berner in assembly products and Aesculap, Storz and Martin in surgical instruments. Such companies thrive - if they do not go under - on direct competition. But all the hidden champions attack their competition wherever it is to be found - "they defend their market shares bitterly".

Spurred on by their strongly individualistic and combative streak, such companies set their own pace and style. "Hidden champions go their own way," says Simon. "They do things differently than other companies and do not follow what popular management gurus say." Admiring though this is, however, such egotism also has its drawbacks, especially since most star companies are family-owned.

The most obvious is the succession problem. As the founders age, they have to hand over the reins. But many company owners do not want to step down. "Strong personalities don't want to give up." Nor do they always have heirs willing or able to take over. This can be solved through management buy-outs or trade sales, but new owners have to ensure that these companies do not lose their character or freedom.

Yet if Germany's example is so potent, why are there no outstanding business personalities there to match Bill Gates in the US or Richard Branson in the UK? One reason is envy, Simon says. "In the US or Japan, people envy Bill Gates in a positive sense. Here, the response tends to be negative - people comment on how high their tax bill must be. The effect of envy is that people keep out of sight."

This means there is no positive motivational effect. Locally, German business leaders are well known. But unfortunately, they are not visible enough to set a wider example. It is also not the usual style in Germany to parade one's success. Tough and dynamic the bosses of the champion performers certainly are. But they are keen that they, if not their companies, should stay hidden.

Die heimlichen Gewinner (Hidden Champions). Die Erfolgsstrategien unbekannter Weltmarktführer. Campus Verlag, Frankfurt, DM88. (English version to be published in May by Harvard Business School Press, Boston, US, as Hidden Champions - Lessons from 500 of the world's best-unknown companies.)

COMMENT & ANALYSIS

FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700
Wednesday January 31 1996

Hanson: the end of an era

Three decades ago, James Hanson and Gordon White started their life's work: turning a small company with interests in truck sales and fertiliser sack hire into one of Britain's biggest businesses.

Yesterday, five months after Lord White's death, Lord Hanson answered the question of what is to become of the company as its founders leave it.

By splitting Hanson into four, he is acting as boldly as in any of the takeovers that made the company a conglomerate with a stock market value of £1.1bn (£17bn). While it must have been tempting to leave behind a giant enterprise bearing his name, the new bearer of the Hanson escutcheon will be an unglamorous £2bn-a-year supplier of building materials.

Hanson's raison d'être was the purchase of underperforming companies, the sale of their peripheral assets, and a fierce focus on the profitability of what remained.

In this way, the group was able to cover the costs of its Imperial Tobacco acquisition from disposals, and still have a business generating £260m in operating profits. Similarly, it was able to recover one and a quarter times the price it paid for SCM in the US, and still retain a profitable specialty chemicals company.

The demerger underscores one fact about the company that its detractors sometimes forget: it has always had a cadre of strong, profit-oriented operating managers, capable of filling the top jobs in four substantial companies.

Yet the risks it took in making bold, often contested, acquisitions were offset by a determined caution in its operating style. This approach, with its emphasis on short-term payback, was heavily criticised. So, too, was the group's strong Anglo-American focus. The Hanson formula was inoperable in

the capital markets of continental Europe. Nor did the company ever seek to build global brands.

In the absence of more effective pressure by institutional investors for improved corporate performance, predators like Hanson have performed a necessary function, especially in mature or declining industries. That way of working did, however, become controversial when it appeared to pose a threat to a higher-tech, capital-intensive business in the shape of Imperial Chemical Industries.

ICI's robust counter-attack, in response to the build-up of a Hanson shareholding, was a turning point. In that it seemed to reveal management weaknesses in Hanson itself. The demerger solution at both Hanson and ICI is a much better outcome than would have been a combination of these two very different companies.

Hanson itself had grown too large, and arguably too complex for the kinds of acquisition that fuelled its growth. It has in any case been handicapped by the loss of Lord White, the partnership's deal-maker. The stock market has become more preoccupied with growth stories, and less enamoured of a focus on turnarounds in unexciting and mature industries.

Hanson was a product of its time, and that time has gone. The shares have underperformed for some time. If - when - complacent managements and under-priced assets re-emerge, so will the Hansons of the next generation. In the meantime, all credit to Lord Hanson for devising a solution that provides an attractive dénouement to his career, and which may contain lessons for other large and underperforming groups. This is a fitting curtain call for a group that has been both admired and feared.

Jobs for Germany

The "comprehensive" action plan to boost growth and jobs announced by the German cabinet yesterday is not, by any stretch of the imagination, comprehensive. Nor is it likely to raise domestic demand and employment in the near future. But incremental, painfully consensual steps towards reforming the German supply side are a good deal better than none at all.

Observers will spot many an old friend in the programme. One example is the plan to abolish the local trading capital tax which Mr Theo Waigel, the finance minister, has tried, and failed to get rid of in the past.

Yet the package does at least press many of the right buttons: deregulation of the economy, reductions in social security contributions, pro-business tax reforms. The issue is whether today's relatively reformist climate will last long enough for the measures to pass through the consensual political process into law.

Economic distress triggered similar talk of German structural reform in the past, only to falter as the economy began to pick up. Many of yesterday's proposals were in fact reminiscent of the action plans of 1983, when many argued that Germany would never escape recession without a fundamental overhaul of the economy.

The "miraculous" economic recovery of 1994 - and subsequent revival of faith in the German model - caused many of those proposals to be shelved. Yesterday's proposals could all too easily suffer the same fate if output and demand began to revive over the next few months. But waverers should note that at least three-quarters of Germany's nearly 10 per cent unemployment rate is structural, not cyclical.

Chancellor Helmut Kohl will not be able to achieve his promise to halve unemployment by the end of the century on the strength of yesterday's package alone. Above all, the plan almost entirely fails to address the question of deregulating the service sector, where a large share of the new jobs would have to come from.

As ever, the greatest short-term hopes for a revival in German growth must lie with the Bundesbank. Although the December money supply figures were stronger than many expected, the poor state of the economy might trigger a second cut in the discount rate, presently 3 per cent, as soon as Thursday's council meeting. But in the negotiations to come Mr Kohl and his social partners must not repeat the time-honoured ritual of talking about supply-side cures, but relying on the relief of renewed demand.

Old clothes

There are so few public clues to the thinking of the Chinese Communist party that the fashion statement carries as much weight as the political communiqué. In recent days, Jiang Zemin, party leader and ancestor heir of Deng Xiaoping, has been gracing public meetings in an off-khaki Mao suit. Both the colour and the cut of Mr Jiang's outfit provide important hints about the shifting strength of factions and the direction of policy.

Khaki is a concession to the People's Liberation Army, whose support is essential to the durability of a Chinese leader. And the high-collared is favoured by elderly conservatives, whose retro taste in clothes matches a political philosophy steeped in the past glories of the Communist party.

Strategic changes of clothes have marked the turn of political trends over two decades of Chinese reform. In the crusty party chaos of the Cultural Revolution, there was no choice. The western suit was evidence of decadence and an invitation to be purged. What westerners know as the Mao suit, which Chinese call the *zhongshanfu* in honour of an earlier revolutionary, Sun Yat-sen, was standard issue for safety-conscious party leaders. In the 1980s, when confidence was growing, leading reformers were willing to take the

risk of wearing a lounge suit. The symbolism was obvious to all. Outside the leadership compound, Chinese began experiments with loud ties and wool-blend fabrics. Hazelnut now rise and fall with the tide of secular fashion.

But the sartorial struggle goes on within the Communist party. After the Tiananmen tragedy in 1989, Mao-suited conservatives dominated. At the onset of other campaigns against "evil winds", "spiritual pollution" and "bourgeois liberalisation", reformers found it convenient to return to the wardrobe and prove their political purity by stealing their opponents' clothes.

Apart from the traditional tunic, Mr Jiang, by Chinese standards a middle-of-the-roader, has acquired the rhetorical accoutrements of conservatism. Suddenly, he is alarmed by "cultural trash" and insistent that the country not "sacrifice ideology" for economic growth.

There is obviously conflict in the Communist party. It could be that unreconstructed conservatives have mustered the numbers to threaten economic policy. It could be that Mr Deng is very close to death and the succession brawl has begun. China remains unpredictable and, as the next emperor, Mr Jiang has good reason to worry about his clothes.

Douglas Hurd says that pressing ahead with a single currency on the present timetable could damage the wider aims of the European Union

Some of us who have worked for the coming together of the peoples of Europe can now reasonably make a request to those who manage Europe. You should no longer make support for a single currency the overriding test of support for the European Union.

The fathers of the European Community believed in the doctrine of the "great leap forward". It was not enough for the European Community - now the European Union - to make gradual progress step by step. Such steps would end in nothing.

Instead, the imagination had to be caught at intervals by some dramatic move forward, with a clear timetable. Thus the European Community was born, and later the single market. Thus, the concept, the criteria and the timetable for economic and monetary union were agreed at Maastricht.

It was not seriously argued on economic grounds at the time of the Maastricht conference that a single market required a single currency. The single currency was devised in a sincere and honourable way as the next political leap forward.

There was no repetition of the arrogant mistake made at Messina in 1955 when the UK refused to take any part in preparing the Common Market. This time the UK is part of the preparation of the project but, thanks to John Major's opt-out, not committed to the outcome.

There is now a muffled cry in unexpected places either for postponement of the timetable or dilution of the criteria for monetary union. Dilution is difficult because although some sophisticated Germans worry about too strong a D-Mark, German public opinion fears that the Euro-mixture is too weak. Postponement is difficult because the timing is in the treaty and the signatures on the treaty were powerful and determined. I do not underestimate the strength of the momentum for monetary union.

It is not logical for the UK to request a postponement because the UK has no commitment to join. It is not at all easy for those who wish to join but may be unable to ask for a postponement because this looks like a confession of weakness. But someone has to face reality. All have tactical and political difficulties. But the Germans are best placed without humiliation to suggest postponement.

The reasons for the cry are clear enough. Instead of unifying the Europe of 15, the Emu proposal divides it into three clubs. There are those which, by the beginning of 1998, will probably be both able and willing to join a single currency in 1999. There are those which will probably be able, but probably not be willing at that date. Finally, and most poignant, there are those which are anxious to join, but who will not be able to meet the criteria of the treaty as it stands today and is interpreted with reasonable rigour.

Second, the relationship between member states which will be in the monetary union and those which will be outside it is now to be examined. It was not examined at Maastricht because the assumption was that at least all the important states would be in. Unless this study is agreed and successful, there is a danger that the single market itself might begin to unravel. What had been devised as a leap forward in unity would then become an angry retreat in division.

Third, the timetable for monetary union falls at an awkward stage in the economic cycle. Growth is slowing across Europe, unemploy-



for Europe of huge significance. We have to enlarge the Union to the east as we have promised. We can no longer pretend that half of Europe is the whole of Europe, or that Prague, Warsaw and Budapest are not as European as Rome, Paris or London.

Beyond those countries lies something else. At the time of Maastricht it was possible to imagine that Russia would evolve fairly smoothly towards liberalism in political, economic and foreign policy. We see now, by contrast, that the confused turbulence of Russia is likely to pose the greatest single problem for European statesmanship in the next decade.

I see no reason of interest or instinct why there should not be an agreed common European policy towards Russia. We do not need a new treaty for this. We need the will and the wit to use the provisions of the existing treaty in a consistent and professional manner. We would then be a valid partner for the US in tackling what is likely to be our great single joint problem. None of this was apparent at the time of Maastricht. It is apparent now, and we should act on it.

Within the European Union we have to complete the single market and show its importance to our citizens. We are all committed to the "ever closer union of peoples".

Hold fire on monetary union

ment is a main preoccupation. It is good in itself to reduce government deficits and public debt and to keep inflation under control. It is a ludicrous paradox to see some British economic commentators, known for their rightwing virtue, beginning to preach vice to France in the form of deficit, debt and devaluation - simply because virtue is now identified with Germany and the Maastricht treaty. Rational British Conservatives can see in what Alain Juppé is trying to do some of what we are glad to have done ourselves.

But these necessary reforms are best accomplished by national persuasion on a national timetable. Such flexibility is not available to those whose main priority is to join the single currency on the timetable in the treaty.

Fourth, after convergence, what?

Nothing in the treaty defines the morning after. A distinguished Italian told me this month it was possible that with a great effort Italians might train themselves down to the necessary weight to qualify one day for the match - but everyone knew that the day after there would be a great rule-breaking feast.

Expecting this danger, Mr Theo Waigel, the German finance minister, is now devising a fitness club which would keep everyone underweight for ever. This club is not in the treaty. Its underlying thought would be widely and deeply unpopular in practice.

If we all continue as we are, the European Union as a whole is in danger of falling into what at Maastricht was simply the Danish delusion. I remember well the Danes chiding the British negotiators then because we were so slow and so

hesitant, and insisted on so many changes in the draft. We were told that the Danes had overcome all these hesitations. But those who told us were wrong about one basic element, the Danish people, whose initial rejection of the treaty came close to derailing it.

We hear the same voices again today. Sometimes they politely chide those who hesitate for lack of leadership. But leadership in a democracy consists of being one step ahead of your followers. If you are 20 steps ahead, nobody follows.

It is said that postponement would mean that Europe was condemned to stagnation or even disintegration over the next few years. That is not so. It arises from the fallacy that at any one time there is only one test of European success.

On the contrary, member governments can put forward an agenda

This does not mean the creation of a superstate, or the gradual and indefinite transfer of authority to Brussels. It means the intertwining of the lives and work of our citizens, our professions, our businesses through effective competition, the elimination of state subsidies, the implementation of the Gatt agreement and privatisation.

There is plenty of detailed work which is not complete. For this purpose we need the supranational institutions which exist - the Commission, qualified majority voting in spheres which it already occupies, a court, a directly elected parliament.

Those who have felt in their hearts that the single currency was becoming the wrong test for the success of the EU have, until recent weeks, been mainly silent. We felt perhaps that, if we spoke out, we would give comfort to those whose aim is quite different - namely to reverse the processes of Europe, to win votes from xenophobia, to narrow our horizons back to 1985 or 1995.

But opponents of the EU in several countries will gain strength above all if the leap forward to a single currency finds no solid ground at the other side of the chasm. Earlier leaps have also had to be modified - the European Defence Community in the 1950s and the first plan for economic and monetary union in the early 1970s. Perhaps Europe is now sufficiently mature to see that the concept of the great leap forward is flawed.

National governments are judged at elections, not by what they promise for the future, but by how they are performing in the present. At present the European Union lacks something which we can and should supply between now and the end of the century: a link which the citizen welcomes between the work of the EU institutions and his or her daily life, a sense that the security and prosperity which the EU has brought is well founded and can be sustained.

The author was UK foreign secretary between 1989 and 1995, and is now deputy chairman, NatWest Markets

OBSERVER

Hole in the thesis

Just when his faction-ridden seven-party coalition seemed finally to be coming to heel, the prime minister Barbara Sheehy has fallen into trouble for his extra-curricular activities - or non-activities.

The latest kerfuffle concerns a masters thesis for a law degree which she has somehow found time to submit last year - in between mastering a government collapse, gaining victory in the subsequent election, organising a coalition and assuming power. That's not to mention the handful of foreign trips he undertook.

The thesis tackled political party funding and had two principal flaws. First, the author quoted extensively from French-language material for which no Thai translation exists. Sheehy speaks no language other than Thai.

Second, passages of the thesis were found to be identical to a research paper written for the interior ministry by Sheehy's thesis adviser, Pokin Polakul, who speaks fluent French and holds down a ministerial position in Sheehy's own office.

Surely Sheehy didn't have Pokin write a thesis which Pokin then cribbed together from bits of his own work?

It would be a pity, because

Banham, who has been known throughout his political career as a "walking ATM" because of his propensity to dole out the cash, probably knows more about the intricacies of political party funding than all of his professors combined.

Citizen Hanson

Hanson's dramatic decision to break itself up into four companies is rather at odds with the corporate adverts it has been running on TV recently. The ads, extolling the benefits of a conglomerate, have puzzled US viewers.

They used the plot of Citizen Kane, where the March of Time newsmen tries to understand a dead capitalist's thinking by examining his investments. The black and white footage shows the executive buying businesses in bricks, coal, timber and so on. But what, asks the newsmen's editor, was the common theme?

Cut to the dying man's final whisper... Hanson.

Foxy Ailes

When Rupert Murdoch announced last November he was launching a 24-hour news network to rival Ted Turner's CNN, he said that the Turner channel had moved "further and further to the left" in recent years. Now he is restoring the balance by hiring

Roger Ailes to run Fox 24 hours. Ailes has been in television for more than 30 years, starting in 1965 as a 25-year-old "prop boy" on one of the early US talk shows. But he has also had a sideline in political consulting, advising three US presidents - Nixon, Reagan and Bush.

Asked yesterday if the programming on the Fox news channel would be more right wing, Ailes replied that he had quit politics years ago. But he planned to bring back objectivity where it was lacking, he said, through "fine, balanced journalism". Which is probably a "yes".

No quavering

At least Gerd Albrecht, the embattled chief conductor of the Czech Philharmonic Orchestra who quit yesterday, went with a flourish.

The elegant but imperious Albrecht, who has fallen out with everybody who matters in Czech cultural circles, made sure he flagged his press conference well in advance. He was rewarded with an audience that packed Prague's Rudolfinum concert hall, home to the CPO.

To the massed ranks of Czech and German media he read a prepared statement that shed little light on the reasons for his departure - which appeared to have a lot to do with the difficulties of being a German in

charge of a pillar of Czech culture. Still, it was quite a performance, prompting one participant to question whether even Helmut Kohl, or Václav Klaus, played their audience quite so masterfully. Perhaps a career change is in order.

Which platform?

Roger Bootle, group chief economist of HSBC, obviously did a splendid job of denouncing the "trains, boats and planes" school of economic theory (to wit: if it's leaving, you'd better board it, regardless of its destination).

At the first City Debate on Monday at the Mansion House sponsored by the Finance and Options Association, Bootle and team were speaking against the motion that the City's best interests were served by the UK joining a putative single currency. The audience was polled before and after the debate for their own views.

Earlier in the day, Bootle had confided he was not looking to effect much of a swing, expecting opinions to be "fairly entrenched". In the event, the City punters proved to be a remarkably flexible lot.

From 37 per cent for and 57 per cent against the motion, the audience moved to 24 per cent for, 76 per cent against. But then, everyone knows the City holds short-term views.

100 years ago
The Princes-Larissa railway. At the London Bankruptcy Court yesterday, William Eckerley, railway inspector, obtained an order of discharge subject to a stipulation of three years from November last. The bankrupt, a member of the Institute of Civil Engineers, was concerned in the construction of the Princes-Larissa railway for the Greek Government, and with others claims about 240,000 in respect to the work done on that railway. His settlement, the failure to the action of the Greek Government and the non-fulfilment of the claim upon the contract.

50 years ago
President urges quick action. Calling upon Congress to ratify the Anglo-U.S. loan agreement, President Truman said that the loan of \$337,500,000 was essential to the life and work of the British people. The President said it would at the same time "keep open the market for those supplies of U.S. goods which are customarily exported to the U.K." Discussing the clause in the loan agreement which would waive the payment of interest in any year in which British funds are held in a United States bank, the President said: "It is not to our advantage to pay for payment of interest when payment is impossible, and thus force default and a crumbling of international relations."

صكنا من الاصل

INTERNATIONAL COMPANIES AND FINANCE

EUROPEAN NEWS DIGEST

DSM 'on target' to meet expectations

DSM, the Dutch chemicals group, said provisional figures for 1995 showed that net profits before extraordinary items were approximately double the FF327m (\$317m) reported in 1994. The preliminary figures, if confirmed by definitive figures due to be released on February 29, would meet the company's full-year forecast published in October.

On October 31, DSM reported a doubling of third-quarter results and predicted that 1995 results would show the same rate of increase. The company, which gave no specific figure for 1995 results, has benefited from price increases in a number of product groups, though it warned late last year that it was seeing larger-than-expected price decreases in some plastics.

Ronald van de Krol, Amsterdam

Acquisition helps BCP advance

Banco Comercial Português, Portugal's second-largest financial group, yesterday reported a 8.4 per cent increase in net consolidated profit in 1995 to Es20.3bn (\$131m) from Es18.7bn in 1994. The results are not directly comparable because of BCP's Es308bn acquisition of Banco Português do Atlântico last March. Mr Jorge Jardim Gonçalves, BCP chairman, said the bank planned to raise its capital to Es180bn from Es109.7bn this year. It aims to raise Es27bn through a domestic rights issue and Es20bn through a placement of preferential bonds, possibly in New York.

Lisbon analysts said the planned capital increase, following a \$500m preferential bond issue last September, reflected the financial strain involved in acquiring BPA and merging the two banks' operations. "The quality of BCP's earnings has clearly deteriorated following the acquisition of BPA," said one Lisbon broker. "It is only in 1997 that the group is likely to begin benefiting from the increased earnings potential of the purchase."

Peter Wise, Lisbon

Boehler-Uddeholm up sharply

Boehler-Uddeholm, the Austrian speciality steel maker, yesterday reported a fourfold increase in net income from Es327m in 1994 to an estimated Sch1bn (\$95.7m) last year. Operating profit climbed from Sch500m to about Sch1.2bn, while sales increased 14 per cent to more than Sch18bn. Mr Claus Raidl, chairman, said his company benefited from higher prices and strong demand for high-quality steel products.

After going public in an initial stock offering last year, Boehler-Uddeholm promised to pay an annual dividend of Sch20 a share. The state-controlled group was forced to reduce its IPO in April 1995 because of a weak stock market, but is planning a secondary offering in the first half of this year. The further privatisation is poised to cut the stake of the state holding company OIAG from 72 per cent to less than 50 per cent, but OIAG wants to keep a 25 per cent minority interest.

Eric Frey, Vienna

Cariplo foundation chief quits

Mr Roberto Mazzotta has resigned as chairman of the charitable foundation which controls Cariplo, Italy's biggest savings bank, following the four-year prison sentence given him by a Milan court last month. His decision, announced on Monday night, will enable the appointment of a new chairman to carry out the foundation's plan to shed majority control of Cariplo. Mr Mazzotta voluntarily stepped aside from his post when court proceedings started two years ago into bribes involving Cariplo's pension fund. He maintains he is innocent but said he recognised the foundation could not proceed with Cariplo's flotation without a chairman.

John Simkins, Milan

Paribas shares shrug off loss

Banque Paribas yesterday blamed improper accounting for a hidden loss of about FF250m (\$48.5m) in the accounts of its Spanish unit in Madrid. The losses related to positions taken on Spanish public debt, and would be taken in the 1996 accounts. Two operators were allegedly responsible for the loss, the bank added. Despite the revelations, Paribas shares, which had opened lower, followed the market to close up FF4.50 at FF284.5.

Reuter, Paris

Stet seeks capital increase

Stet International, the vehicle for the Italian state holding group's investments in telecom operators, is to ask shareholders next month to approve a capital increase of L1,033bn (\$645m). The company, controlled by Stet and Telecom Italia, has pursued a policy of strong growth overseas which includes an accord this month to take a 16 per cent stake in Entel Chile.

John Simkins

Philip Morris in \$227m Polish move

By Christopher Bobinad in Warsaw

Poland's privatisation programme took an important step forward yesterday when Philip Morris of the US agreed to pay the country's treasury \$227m for a controlling stake in ZPT Krakow, the country's largest tobacco plant which controls more than one-third of the domestic market.

The ZPT Krakow sale is expected to be followed by a second deal tomorrow, when Reemstma of Germany buys the Poznan tobacco company, which produces and sells one-quarter of the 96bn cigarettes consumed in Poland each year. Reemstma is reported to have agreed to build a new plant in Poznan in a deal which should be worth more than \$200m in investment commitments, including the price paid for the equity in the plant.

The speed with which the final talks between the treasury and Philip Morris have been concluded appears to reflect fears on both sides that cabinet changes - after the appointment of a successor to Mr Josef Oleksy, who resigned as prime minister last week - would further delay sales in the sector.

Late last year, Mr Wieslaw Kaczmarek, the privatisation minister, signalled that offers from higher prices and strong demand for high-quality steel products.

The disposal of the tobacco sector, which was first proposed in 1991, has been one of the most controversial privatisation issues faced by successive Polish governments. It was initially resisted by the Polish Peasant Party (PSL), currently the junior partner in the ruling coalition, which sought to transform the sector into a state monopoly.

The PSL now stands a chance of strengthening its hand in the forthcoming cabinet reshuffle which could have led to further obstruction.

Philip Morris has produced its Marlboro brand at Krakow since 1973 under a licensing agreement, and has been seeking to buy the plant since 1991.

It has agreed to invest a further \$145m in the plant over three years, making the deal the largest capital transaction by a foreign investor in Poland since 1989.

The company will initially have 33 per cent of ZPT Krakow's equity and will take control of a further 32 per cent when the investment programme is completed.

Philip Morris has to date invested \$1bn in the former communist world and controls production facilities in the Czech Republic, Kazakhstan, Hungary, Lithuania, Ukraine and Russia.

Provisions send Bouygues into the red

By Paul Abrahams in Paris

Bouygues yesterday revealed big provisions for its industrial holdings, telecoms and property businesses, forcing the French conglomerate into losses of about FF25bn (\$782m) for 1995.

Without the FF4.4bn of exceptional items, the group would have reported net earnings of about FF400m, compared with analysts' expectations last autumn of about FF600m. The company said 1996 earnings would equal those in 1994, at about FF573m.

Mr Martin Bouygues, chairman, also announced the group would sell about FF3bn of non-strategic assets within the next 18 months.

Despite the 1995 loss, the board intended to maintain the dividend at 1994's FF25 a share. It would be paid from reserves. Bouygues' shares were suspended yesterday pending the announcement and did not begin trading before the close.

The property provisions, at FF2.1bn, are the latest of a series of exceptional items announced by French companies exposed to the sector.

Mr Bouygues blamed a deterioration in the market during the second half of 1995. He said he hoped there would be no further decline, but could not guarantee an improvement.

The property business would achieve sales of FF4.1bn this year compared with FF4.4bn in 1995, and should make a profit in 1996, he added.

Bouygues also made provisions of FF1.1bn for its holdings in financial and industrial groups which had suffered from the worsening economic environment.

FF1.2bn would cover start-up costs for its paging operations and Bouygues Telecom, the French PCN mobile telephone business in which Bouygues holds 51 per cent.

Until 1989, when they would become profitable, the telecoms businesses would make cumulative losses of about FF2.6bn, Mr Bouygues said.

Other shareholders in Bouygues Telecom include Cable & Wireless of the UK; Vebs of Germany; US West; BNP, the French bank; and Compagnie Financière de Paribas. Telecoms sales should reach FF150m this year.

Group turnover in 1995 increased 2 per cent to FF81.3bn, boosted by acquisitions. Excluding the acquisitions, sales were stagnant. Sales at TF1, the quoted television group controlled by Bouygues, increased from FF6.4bn to FF9.1bn last year, and should reach FF9.5bn next year.

Mr Bouygues refused to comment about corruption inquiries which have led to a number of senior company executives, including the chairman, being placed under formal investigation by magistrates.

Thyssen poised for disposals after setback in all activities

By Michael Lindemann in Düsseldorf

Thyssen, one of Germany's biggest industrial groups, yesterday warned that all three of its divisions had reported first-quarter profits below expectations and signalled it was likely to sell businesses worth about DM1bn (\$678m) in sales restructuring.

Mr Heinz Kriwet, the chief executive who hands over to Mr Dieter Vogel in March, warned that the business climate in Germany was deteriorating rapidly and that Thyssen was especially susceptible to an economic slowdown because so much of its business, centred mostly on steel, is short-term.

"It would be wrong and irresponsible to talk of a recession," Mr Kriwet said, "but we have taken a step closer to such a risk."

The Düsseldorf-based group said it would ask shareholders

to approve a DM500m increase in its authorised capital at the annual general meeting in March, but said it had no plans to spend the money on any acquisitions. The increase was last requested in 1991 and needs to be extended before the five years are up, the company said.

All three of Thyssen's divisions trading and services, steel and engineering, reported unprofitable results for the quarter ending December 31, Mr Kriwet said, but new orders for the quarter fell to DM3.04bn, 10 per cent lower than the same period a year earlier.

Sales in the three months rose 7 per cent to DM3.07bn.

While Mr Kriwet would not specify what businesses might be sold or brought into joint ventures with other companies, he said that further changes were necessary to make the group more resilient to the heavy losses it sustained during the recent downturn in

steel and to improve shareholder value.

"The structure of the group at the moment is not the way the management board would like to see it," Mr Kriwet said.

Thyssen Stahl, the steel division, has already said it is working on further co-operation agreements with other manufacturers, especially for its long products.

Despite a range of sobering predictions about the prospects for business this year, Mr Kriwet said there were "firm expectations" that Thyssen would pay a DM10 dividend for the financial year ending September 30, the same amount as this year.

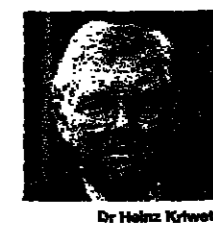
Thyssen plans to shed 2,464 jobs by the end of this year, bringing its worldwide workforce to 122,822.

However, Mr Dieter Hennig, the personnel director, warned that Thyssen might well be forced to make further personnel cuts if the business climate

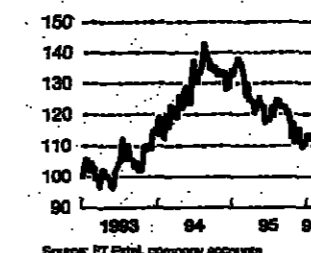
COMPANY PROFILE

Thyssen

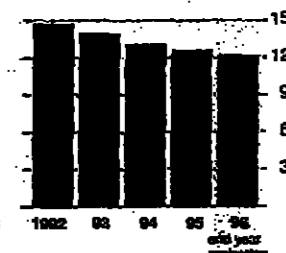
Market capitalisation	\$6,072m
Main listing	Frankfurt
Historic P/E	132.5
Earnings per share (DVFA) 1995	24
Current share price	DM 295.0



Share price relative to the DAX Index



Employees Average (000)



deteriorated during the year.

Mr Heinz-Gerd Stein, chief financial officer, also implied that the company would continue to move jobs to cheaper production sites abroad.

Following the fall of the

dollar and the wage round

which raised personnel costs by almost 10 per cent last year, a Thyssen worker in Germany now costs DM12,100 more than abroad. A year earlier the difference amounted to DM1,400.

OMV profit more than doubled to Sch2bn

By Eric Frey in Vienna

OMV, the Austrian oil, gas and chemicals group, yesterday continued an impressive turnaround by announcing pre-tax profit more than doubled from Sch640m in 1994 to a record Sch2bn (\$191m) last year, achieved through drastic cost-cutting and higher prices for some plastics lines.

The group, which was in the red in 1992 and 1993 because of heavy losses from its chemicals unit, said it would lift its 1995 dividend from Sch10 to Sch20 a share. However, earnings growth slowed in the fourth quarter because of charges related to the sale of its Chemie Linz subsidiary.

After the results yesterday, Mr Richard Schenz, OMV chairman, predicted slightly lower earnings, "but still a respectable result" for 1995.

OMV had come out of the biggest crisis in its history through a sharp reduction in personnel and capital outlays, he said. It had cut staff and overtime and also reduced its oil and gas exploration budget. This helped cut losses in the exploration and development sector.

"Without rationalisation, we would have suffered a loss of Sch3.8bn last year," Mr Schenz said. Through further cost-cutting, OMV should be able to lift the dividend to Sch30 in the medium term, he added.

Oil and gas production is set to rise to 4m metric tonnes from the current 3m as OMV plans to invest Sch6bn in exploration in the next three years, while plastics and chemicals remain the weak spot in its balance sheet. Prices for fertilisers, monomers and polyolefins were on average up last year, but a drop in polyolefin prices in the fourth quarter dampened earnings growth in that division.

Two weeks ago, OMV and Repsol of Spain cancelled a planned joint venture in polyolefins because of unspecified "strategic differences". But OMV said yesterday it was still considering co-operation with Repsol in other lines.

Mr Schenz pinpointed neighbouring countries, including the Czech Republic, Slovakia, Hungary, Slovenia and Italy, as key areas for future expansion. OMV is planning several joint ventures and acquisitions in the natural gas business and wants to boost its market share in petrol sales at its own-brand stations. This should help it improve capacity utilisation at its large oil refinery in Schwechat near Vienna.

The group is also engaged in several pipeline projects in Hungary, Slovenia and Italy and is planning to increase its gas storage facilities in Central Europe.

In Austria, the group's aim is to keep its market share in petrol sales of 23 per cent, despite closing down a fifth of its petrol stations over the next five years.

KLM third term lifted by stake in Northwest

By Ronald van de Krol in Amsterdam

KLM Royal Dutch Airlines' ownership of preferred shares in Northwest, the US airline, allowed the Dutch carrier to shrug off a 71 per cent decline in operating profit and report a 28 per cent increase in net profits for the third quarter of 1995-96.

Lower taxes and a decline in financial expenses also contributed to the rise in KLM's bottom line in the quarter, which ended on December 31.

The increase in net profits, from FF183m (\$48.5m) to FF102m, was in line with analysts' forecasts, but there was some surprise that the airline's operating profit dropped from FF193m to FF156m.

Its shares closed down 6.5 per cent at FF80.40, on a generally lower Amsterdam stock exchange.

KLM clearly benefited from Northwest's record profits in 1995, as this enabled it to step up the revaluation of the preference shares it owns in its US partner airline.

"This development warrants a more rapid scale-back of provisions previously taken against KLM's investment in Northwest Airlines' preferred shares," KLM said.

Income from Northwest shot up to FF99m from zero a year earlier, of which FF50m represents the effect of the revaluation. KLM does not yet take

a share of Northwest's net profits on to its own books because the US airline still has negative shareholder equity.

KLM, which has a 25 per cent equity stake in Northwest and voting rights of almost 19 per cent, is embroiled in a law suit with fellow Northwest shareholders over a "poison pill" aimed at limiting the Dutch company's ability to lift its voting stake.

"The Dutch carrier yesterday forecast a 10 per cent increase in earnings per share for the full-year. Previously, KLM had said only that 1995-96 net profits would be "slightly" higher than a year earlier.

"In spite of the pressure on operating income, we foresee a significant improvement in net income in the fourth quarter, as a result of higher income from associated companies and lower income taxes," it said.

In the third quarter, revenue rose by 4 per cent to FF2.65bn but this was offset by an 11 per cent increase in expenses to nearly FF2.3bn. Salaries and employee benefits rose by 14 per cent, reflecting in part the resumption of pension contributions by KLM after a premium "holiday" ended in late December 1994.

KLM said it posted 10 per cent traffic growth in the third quarter, which it described as being above the market average. But capacity increased faster, expanding 15 per cent.

Hoping to have won a stay of execution

Andrew Jack looks at the factors behind the difficulties at Crédit Foncier de France

The historic façade of the headquarters of Crédit Foncier de France in central Paris conceals wide cracks forming deep inside the institution which threaten its very survival.

In the past 12 months, the group, which specialises in domestic property loans, has seen its share price fall by more than two-thirds, while the cost of its borrowing has jumped as credit rating agencies have downgraded their assessments.

As the crisis reached a peak last week, unions placed a half-page advertisement in the French newspaper *Le Monde* pleading their case, and locked directors into their offices late on Friday in an attempt to win greater negotiating powers before an expected restructuring which could lead to heavy job cuts.

With cash reserves depleting fast, the directors managed on Thursday to secure a new line of credit - at competitive interest rates - of up to FF25bn from the state-backed Caisse des Dépôts et des Concessions, secured against its loan portfolio.

What has brought the institution to this? Like many other French businesses, Crédit Foncier has been hit by the property market crisis, which has forced banks, insurers and conglomerates alike to announce huge write-downs.

It has also found itself exposed to an intensely competitive environment as banks offer low interest rates in an effort to gain business. Yet, unlike most of its rivals, it offers nothing but property loans, which has magnified its problems considerably.

The most significant factor behind the current crisis was a

The directors now appear to accept that the institution is almost certain to be unable to carry on in its current form. At the very least, they are seeking a single large shareholder to provide significant new capital

decision taken by the new French government last September. Mr Pierre-André Périssol, the minister of housing, announced the abolition of the PAP, the Prêt de l'Accession Sociale, a subsidised loan programme to encourage those on low incomes to buy their houses and of which Crédit Foncier was one of only two providers.

In its place, the government launched a package of zero-interest loans up to a limited threshold for new home buyers, which would be available through any French bank and would be topped up with their own loans at commercial rates.

additional FF1bn (\$196m). Yet the stock market authorities blocked the deal at the end of November, arguing that shareholders in the subsidiary should have the right to a cash exit and not simply to shares in the bank - a solution the directors could not afford.

They have also been trying to readjust in other ways. The bank has won the right to pay a commission to the French Post Office for every client returned to it for the government's zero-rate loan - which has enabled it to capture some 20 per cent of the market so far.

Crédit Foncier's raison d'être was removed in the process.

The directors of Crédit Foncier thought they had found a solution late last autumn, when they proposed a merger between the parent company and Société des Immeubles de France, a 55 per cent-controlled subsidiary, which would have recapitalised it with an

role advising the government

and funding the conversion of vacant offices into housing.

The directors are now discussing plans to reduce costs by between 30 per cent and 40 per cent over the next three years, with a similar cut in the payroll - which triggered the current industrial unrest.

However, such actions are marginal. The directors now appear to accept that the institution is almost certain to be unable to carry on in its current form.

At the very least, they are seeking a single large shareholder to provide significant new capital. The institution may well even be taken over entirely. "It will either disappear or be acquired," says one analyst.

Some rating agencies and other analysts now believe the mood has become too pessimistic, however. First, while no new PAPs will be issued, the existing ones will expire over several years, providing time to find new types of business. Second, the underlying assets of the bank look relatively strong and there are government guarantees beneath them that suggest bondholders are in a strong position.

Nevertheless, substantial new provisions against its loan book are expected when Crédit

Foncier publishes its full-year

1995 results at the start of April.

Meanwhile, attempts at restructuring are proving difficult, partly because of its peculiar legal status. While it is a publicly-quoted company with no direct shareholding by the French state, the government appoints the chairman - called the governor - and his two deputies, a legacy of the state's dominant role in its operations since the 1950s, when PAPs were introduced.

The result is an institution which, according to some critics, has a rigid organisational structure and a protected staff with little commercial judgment. "It has the spirit of the civil service," says one outsider who knows it well.

It is also one that has long lacked transparency, and hence generated suspicion on the part of outsiders. It was only last year that the governor held a presentation for analysts for the first time, for example.

If investors are to take the bank seriously, they will expect a change in its legal statutes to ensure that the executives are directly accountable to shareholders rather than to the state.

The current board must hope in the meantime that they have created enough breathing space to find a longer-term solution.

This announcement appears as a matter of record only.

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November 1995

INTERNATIONAL COMPANIES AND FINANCE

RJR Nabisco held back by restructuring charge

By Richard Tomkins in New York

RJR Nabisco, the US tobacco and food group under pressure to spin off its food business, yesterday reported a 1 per cent increase in fourth-quarter net earnings of just \$33m, only slightly ahead of the comparable period's \$28m.

The company said that if restructuring charges and extraordinary items were excluded, net income would have shown a 1 per cent increase to \$207m, or 80 cents a share. This was in line with analysts' expectations, following the company's earlier warning of a profits shortfall.

For the full year, net income rose from \$988m to \$1010m. The company said that after excluding one-time expenses and

extraordinary items in 1994 and 1995, net income rose 6 per cent to \$877m.

One of the main reasons for the poor fourth-quarter performance was an \$77m pre-tax charge for the restructuring and relocation of RJR Nabisco's international tobacco operations.

Mr Steven Goldstone, who took over as chief executive in December, said that if one-time charges were set aside, a decline of 4 per cent in operating profits over the previous three quarters had turned into a gain of 7 per cent in the fourth quarter.

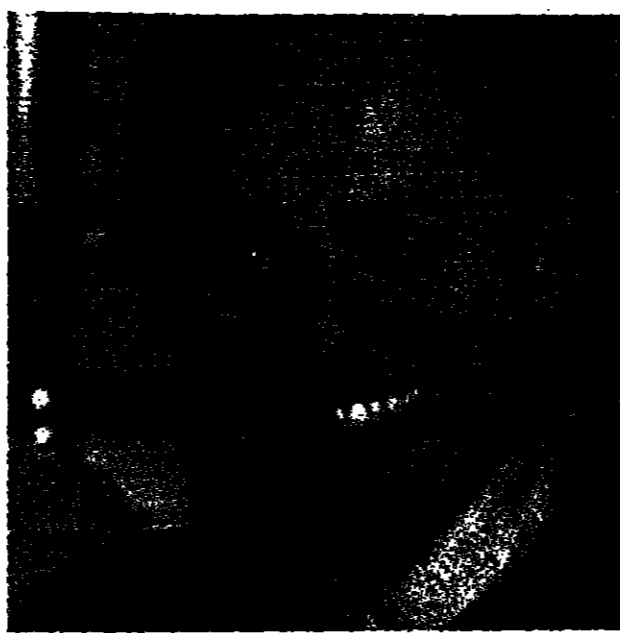
"That is the result of a marked rebound in sales, volume and profit at the international and domestic tobacco businesses, which we expect to carry us into 1996 with significant momentum," Mr Goldstone said.

Mr Goldstone also saw a positive outlook for the Nabisco food business, which is 80 per cent controlled by RJR Nabisco and which reported separately a day earlier.

After investing in new products and enduring some short-term market disruptions, the company had entered the current year "well positioned for earnings growth", he said.

Excluding one-time expenses, RJR Nabisco's tobacco operations increased fourth-quarter operating profit 3 per cent to \$303m. The international contribution rose 5 per cent to \$207m, and the domestic contribution, 1 per cent to \$288m.

The company said it had ended 1995 with a slightly higher share of the domestic cigarette market than a year earlier. This was attributed to a 10 per cent increase



Steven Goldstone sees positive outlook for food business

in sales volume for Camel, the fastest-growing full-price domestic brand in the US last year.

In international markets, the

former Soviet Union posted strong results in the second half and was carrying "significant momentum" into the current year.

Apple share price slides as takeover hopes fade

By Louise Kehoe in San Francisco

Apple Computer's shares fell sharply yesterday as investors' hopes of an imminent takeover bid for the struggling personal computer company faded.

Widely-remembered talks between Apple and Sun Microsystems, the leading computer workstation manufacturer, are believed to have ended without agreement. Sun is said to have proposed a stock-swap offer for Apple worth about \$2.5 billion.

Yesterday, Apple's shares were trading at \$27.75 in mid-session, down almost 6 per cent from Monday's close of \$29.50. Sun's share price rose to \$44.50 from \$44.

As Apple's share price continued to decline, there was industry speculation that other bidders for the company would soon emerge.

Among the names mentioned was Mr Larry Ellison, the billionaire chairman of Oracle, the database software group. Mr Ellison has acknowledged that he attempted to put together a plan to acquire Apple last year. He is believed to have been interested in spinning off the company's hardware manufacturing operations while retaining its software development business.

IBM offered Apple \$40 a share last year, according to former IBM and Apple executives, who said the computer industry leader might renew its interest at a lower price. Motorola, Hewlett-Packard and Sony of Japan are also mentioned as possible buyers.

Apple's problems have prompted Standard & Poor's to lower its rating on \$300m of the company's debt to junk bond status. Citing Apple's recent losses and management turmoil, the rating agency said it would review the rating if Apple were acquired by a "stronger entity".

Apple also attempted yesterday to dispel reports that it had placed a halt on new R&D spending. "There is no freeze. We are reviewing our business model and rationalising our product portfolio. In these circumstances, new spending must be reviewed," it said.

NEWS DIGEST

Barrick steps up global campaign

Barrick Gold, the biggest gold producer outside South Africa, has capped its 10th consecutive year of output and earnings growth with plans for a new mine on Chile's El Indio gold belt. The Toronto-based company signalled plans to become more aggressive in challenging South Africa's mining houses in the international gold industry.

Mr Peter Munk, chairman and controlling shareholder, said yesterday that Barrick aimed to become a dominant globally as it was in North America.

Net earnings rose to US\$282.3m, or 82 cents a share, last year from \$250.5m, or 80 cents, in 1994. Revenues climbed to \$1.26bn from \$836m. Average operating costs grew to \$188 an ounce from \$167. Gold output totalled 3.4m oz, up from 2.8m oz. Almost two-thirds of production came from the flagship Goldstrike property in Nevada.

Barrick's recent success is partly attributed to an active hedging strategy, allowing it to obtain gold prices well above the prevailing market. Last year's sales were concluded at an average price of \$406 an ounce, compared with the market average of \$384. But the recent spurt in bullion has led the company to reduce hedged positions from three years' output to less than two years' output. *Bernard Simon, Montreal*

Twist to Mattel, Hasbro battle

US toy-maker Mattel's highly-publicised rivalry with Hasbro took a new turn yesterday, when regional legal authorities started investigating the antitrust implications of the proposed \$5.2bn share offer. As Mattel published a further appeal for a negotiated settlement, Hasbro advisers distributed copies of requests for detailed information sent to both companies by Mr Richard Blumenthal, attorney-general for Connecticut.

Although there has not yet been an official bid, and federal cartel officials have no formal case to investigate, the move marks the first apparent success in Hasbro's attempts to arouse the competition authorities' interest in Mattel's unwelcome approach. "I have followed with great interest, and I must say great concern, the possibility that Mattel and Hasbro might be combined," Mr Blumenthal wrote. "The merger of the country's two largest toy manufacturers raises serious antitrust questions."

Estimates of the impact on the market share caused by a possible merger of the world's two largest toy makers have been made difficult by the inclusion of electronic and other innovative products in the overall market for toys. However, there is no dispute that a combined group would be the biggest operator in the \$17bn US market, as well as in the European Union and Canada.

The release of Mr Blumenthal's letters coincided with a renewed public appeal from Mr John Amerman, Mattel chairman and chief executive, for Hasbro to restart talks and "finalise the transaction so that our shareholders can receive a premium of over \$2.2bn". *Christopher Purkes, Los Angeles*

Start date for 24-hour Fox News

Mr Rupert Murdoch, chairman and chief executive of News Corporation, the international media group, said yesterday he aimed to launch the Fox 24-hour all-news network by the end of this year. He was announcing the appointment of Mr Roger Ailes, former head of CNBC, NBC's business news channel, to head the network.

The new network, first announced in late November, is aimed to compete with Cable News Network, Mr Ted Turner's news channel. Rival networks ABC and NBC, in partnership with Microsoft, have also announced plans for 24-hour news channels.

Mr Murdoch said yesterday that the Fox network would include interactivity, allowing viewers to call up stories on-line to find more details. He said that the more than \$30m a year cost of running Fox News at the moment would rise by about \$50m a year. He expected "significant revenues" from the network.

Mr Murdoch said that adding to Sky News in Europe and Star TV in Asia, and developments in South America, News Corp's television news channels would soon cover more than two-thirds of the world. *Maggie Urry, New York Observer, Page 13*

MCI raises earnings 17%

MCI, the US long-distance telephone company, raised earnings by 17 per cent to \$284m in the fourth quarter on sales 22 per cent ahead. MCI said it aimed at double-digit increases in sales and earnings in 1996 and 1997. For the first time, the company split results from its long-distance phone network from its other ventures, including Concert, its joint venture with BT. Long-distance earnings were up 37 per cent for the quarter at \$344m, and by 36 per cent to \$1.5bn for the year.

Among other ventures, MCI closed last year's \$1bn investment in News Corp and \$1.1bn purchase of SHL Systemhouse. Revenue for the year was \$362m, up from \$282m, while there was a net loss of \$125m and a cash outflow of \$46m. Concert had revenue of \$228m in the year and \$76m in the final quarter. *Tony Jackson, New York*

Eli Lilly ahead in first term

An unexpectedly low tax charge lifted Eli Lilly's net income by 18 per cent during the final three months of last year, as sales grew 16 per cent to \$1.8bn. The US drugs company, which reported earnings of \$92m, or 83 cents a share (87 cents before profits from discontinued operations), said it believed the lower tax rate was sustainable "near-term". The rate for the year was 26 per cent, against an expected 29 per cent, because of higher earnings in low-tax countries and the effectiveness of tax-planning.

At the pre-tax level, profits fell 4 per cent to \$364m on continuing operations, reflecting the acquisition of PCS, the pharmacy benefit manager, as well as a surcharge imposed by the French government and expected litigation costs. Sales of Prozac, the anti-depressant, rose 24 per cent to over \$2bn during the year, while sales of Ceclor slipped 11 per cent to \$722m as the drug's US patent expired. Full-year net income rose 75 per cent to \$2.92bn, including discontinued operations, or a rise of 10 per cent to \$1.8bn without them. 1995 earnings reached \$4.03 a share, or \$2.30 excluding the discontinued businesses. *Richard Waters, New York*

Bonus issue from Advance Bank

Advance Bank, the Australian regional bank, has lifted its dividend and declared a bonus issue after a strong earnings performance in the six months to November. The bank, which last year bought the Bank of South Australia (now BankSA) from the state government, yesterday announced a 3.5 per cent rise in net profit to A\$57.8m in a year ago to A\$55.1m (US\$59.27m). The interim dividend is being raised to 33 cents to 35 cents a share and directors have declared a one-for-one bonus issue. They said the result included five months of trading from BankSA.

The result followed an increase in the charge for bad and doubtful debts from A\$2.3m to A\$7.7m and a tax provision of A\$46.7m, up from A\$31.6m. Total assets jumped 7.4 per cent from A\$11.8bn to A\$12.6bn. *Bruce Jacques, Sydney*

Banque Audi advances

Lebanon's Banque Audi, which became the first Arab bank to issue Global Depository Receipts last November, posted LE20.1bn (\$12m) net profits in 1995, up nearly 60 per cent over 1994, the bank reported yesterday. Net return on assets rose to 1.05 per cent in 1995, against 0.93 per cent in 1994, but return on equity dropped from 30.8 per cent in 1994 to 27.8 per cent this year.

The bank said financial income jumped more than 43 per cent. Customer deposits increased to \$1.17bn at the end of 1995, compared with \$912m the previous year.

Banque Audi is the fourth largest bank in Lebanon in terms of assets and one of the most conservative. The GDRs sold for \$12.50 a piece in the November \$34m issue. They are now trading at \$12.75. *Roula Khalaf, London*

GM back to strength with 40% rise for year

By Richard Waters in New York

General Motors fared better than expected in the difficult automotive markets of Europe and North America in the last three months of 1995, capping a year in which it finally eliminated its large US pension fund deficit and restored its balance sheet to financial health.

The world's biggest automotive maker was able to lift its net income last year by 40 per cent, to \$6.5bn. This is likely to give GM the biggest profit of

any US company for 1995, topping even General Electric's \$6.5bn. It comes just four years after the group was brought to the edge of financial collapse by its chronic lack of competitiveness in North America.

The recuperation of GM's North American operations was the biggest factor behind last year's earnings rebound. Pre-tax income more than doubled, to \$3.5bn, as GM cut costs against the background of a 5 per cent rise in sales, to \$103m.

Mr Michael Losh, chief financial officer, said the company expected further cost-cutting and efficiency gains this year to push it towards its target pre-tax profit margin of 5 per cent.

In the final quarter of last year, pre-tax earnings slipped 14 per cent to \$760m, reflecting the tough North American car market and the group's relatively low level of higher-margin light trucks. However, executives paid net vehicle contribution to decline, falling to \$833 from \$871 in the previous quarter.

Outside the US, meanwhile, GM's pre-tax profits fell by 28 per cent to \$1.5bn for the year as it faced unfavourable foreign exchange movements, the costs of launching the new Opel Vectra in Europe and higher material and labour expenses in Latin America. In the final quarter, pre-tax income fell to \$110m, from \$36m a year before.

Vauxhall Motors, General Motors' UK subsidiary, yesterday blamed fierce competition in a stagnant UK market for a sharp fall in pre-tax profits to \$3m (\$4.62m) last year, compared with \$7m in 1994, writes John Griffiths in London.

Startling weakness against the D-Mark, industrial action in the final quarter, and costs associated with the new Vectra model compounded Vauxhall's problems, said Mr Charles Golden, chairman and managing director.

Vauxhall's total wholesale sales of cars and light commercial vehicles fell 1.5 per cent to 430,727. Its UK registrations, at 294,131, were 5.3 per cent below the 1994 level.

Mr Golden said the company expected further cost-cutting and efficiency gains this year to push it towards its target pre-tax profit margin of 5 per cent.

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Standard Chartered sells troubled broking arm

By Louise Lucas in Hong Kong and Ted Barnacka in Bangkok

Standard Chartered, the London-based international bank, is to sell its loss-making and Asian-dominated stockbroking arm, Standard Chartered Securities, to a leading Thai finance company, Nava Finance & Securities, and its parent, Thai Military Bank.

The price was not disclosed, but Standard Chartered said yesterday in Hong Kong it was based on "a modest discount" to the net asset value of the stockbroking activities.

London brokers estimate the operation had trading losses of around \$10m

(\$6.6m) last year, and said the price would probably be less than \$3m. This, however, was substantially more favourable for Standard Chartered than recurring the costs of closing the business.

At the same time, Fleet Financial, the fast-growing US regional bank, announced it had reached an agreement for Standard Chartered to provide trade finance services to its customers in the Asia-Pacific region.

Standard Chartered and Nava have been negotiating for nearly a year. At one point, Nava pulled out of the bid, complaining that Standard Chartered was offering different terms to

different suitors. Other bidders included Prudential Bache of the US and Whitbread Capital, another Thai finance company.

Nava will acquire "substantially all" of the stockbroking activities carried out by Standard Chartered Securities, which employs around 250 and is strongest in Hong Kong and China.

The operation has had a chequered history, last reporting a profit in 1993. It has since closed down its private client business (although wealthy individuals were understood to have remained clients), cut staff and had a number of run-ins with the regulators.

Its initial public offering business ran

aground in June 1994 when the Securities and Futures Commission, the regulatory body in Hong Kong, suspended Standard Chartered Securities from involvement in IPOs until the following April, by which time the markets knew of the decision to sell up.

Nava is Thailand's 10th largest finance company in terms of assets and its fourth largest in terms of brokerage market share. It recently renewed an agreement with UK-based brokerage house W.I. Carr to provide securities trading in Thailand. Nava stressed this relationship would not be affected by the Standard Chartered purchase.

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Its initial public offering business ran

PolyGram withdraws offer for Goldwyn

By Christopher Purkes in Los Angeles

Negotiations over the future of debt-laden Samuel Goldwyn, the Los Angeles film company, have run into difficulties, with the reported withdrawal of a partial offer from PolyGram, a subsidiary of Philips of the Netherlands.

The bank, which is 55 per cent owned by Mr George Fy, a leading Chinese-Filipino businessman, said it also overtook the Philippine National Bank as the country's largest finance house in terms of total assets. Total assets jumped from 110bn pesos in 1994 to 178bn pesos, the company said.

"Metrobank's very impressive results last year were the fruits of a rapid branch expansion plan and the overall climate of fast deposit and loan

Branch expansion helps lift Metrobank profits by 39%

By Edward Luce in Manila

Metropolitan Bank and Trust (Metrobank), the Philippines' largest commercial bank, reported a 39 per cent rise in net profits, to 3.5bn pesos (\$133.7m) in 1995, on the back of rapid branch expansion growth.

The bank, which is 55 per cent owned by Mr George Fy, a leading Chinese-Filipino businessman, said it also overtook the Philippine National Bank as the country's largest finance house in terms of total assets. Total assets jumped from 110bn pesos in 1994 to 178bn pesos, the company said.

"Metrobank's very impressive results last year were the fruits of a rapid branch expansion plan and the overall climate of fast deposit and loan

growth in the Philippines," said Mr Matthew Sutherland, chief analyst at Asia Equity Securities in Manila.

"The bank has also benefited from its very close ties to the Chinese-Filipino business community, which owns some of the fastest growing businesses in the country," he added.

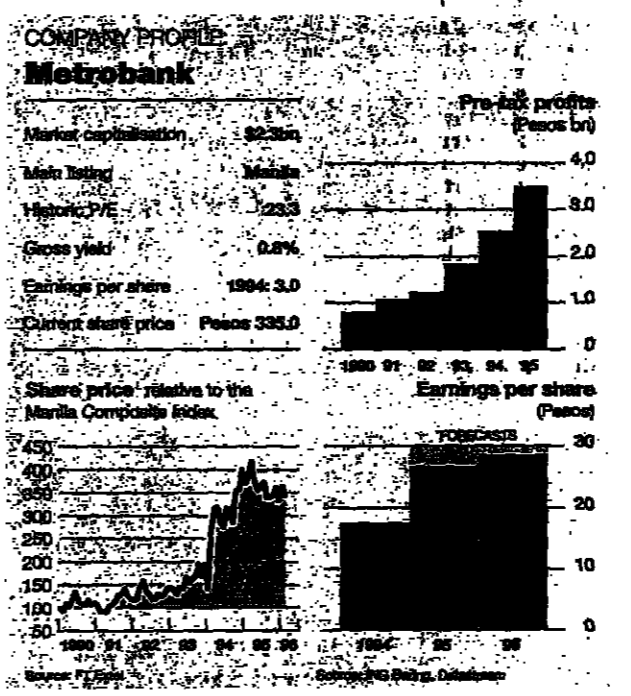
Spurred on by the Philippine economic recovery, which helped total banking loans deposits grow by about 30 per cent, Metrobank extended its branch network to more than 300 outlets from around 270 in 1995, and saw deposits grow 25 per cent to 108bn pesos. Net loans, which include underwriting contracts, surged 56 per cent to 93.8bn pesos.

Analysts, who point out that Metrobank is a leading share of the country's rapidly growing export-import finance

sector - owing to its close ties with Taiwan and other Chinese trading partners - say the bank's consumer financing subsidiaries have also gained impressive stakes in the housing mortgage and car loan sector. Car sales grew 29 per cent in 1995, while the country's top-end property market saw real estate prices double in 12 months.

With a 25 per cent stake in Toyota (Philippines), which had the highest share of the country's car sales market last year, Metrobank is considered well placed to exploit the continued surge in consumer financing. However, analysts see Metro's net profits growth slowing to about 25 per cent in 1996.

"Metro will continue to register good growth, but profit rises of 40 per cent will not be



an annual event," said Mr Sutherland. Metro's shares, which have

risen in line with the market's recovery this year, yesterday closed steady at 355 pesos.

Tenneco posts strong advance

By Edward Luce in New York

After-tax earnings at Tenneco rose to \$1.63m on sales of \$2.4bn in the final quarter of last year, as the diversified US industrial conglomerate continued to shift into higher-margin businesses and shed cyclical operations, writes Richard Waters in New York.

A year before, it reported earnings of \$92m on sales of \$2.8bn, after a \$177m loss from discontinued operations.

"A number of deals are ready to be finalised, and there are no financial constraints on further acquisitions," said Mr Dick Snell, president and chief executive, in Brussels recently at the start of a world tour to discuss vehicle manufacturers' globalisation programmes and launch automotive after-market initiatives.

Automotive side selects global gear

By Edward Luce in New York

Tenneco Automotive, the \$2.5bn turnover motor components subsidiary of the US natural gas, packaging and automotive multinational, is accelerating a worldwide acquisition programme in the belief that, within a decade, each motor components sector will be dominated by one or two fully global groups.

"A number of deals are ready to be finalised, and there are no financial constraints on further acquisitions," said Mr Dick Snell, president and chief executive, in Brussels recently at the start of a world tour to discuss vehicle manufacturers' globalisation programmes and launch automotive after-market initiatives.

Takeovers and joint ventures are seen as potential routes for growth

Turnover, but is regarded as the division with probably the highest potential for growth.

In the past year or so Mr Snell and senior executives are known to have been investigating possible takeover targets or joint ventures around the world. In the past few months the division has set up a joint venture with a local partner in Beijing to form Beijing-Monroe Shock Absorber, supplying locally-produced Chrysler Jeep Cherokees and a domestically designed sport utility vehicle. The venture has been chosen to supply Dong Feng Citroën in Wuhan, which is to produce the French carmaker's ZX model, and has also set up an exhaust venture in China, with India next on the list.

In the Czech Republic, it acquired the Ateso shock absorber manufacturer near Prague, as a launch pad into eastern Europe. And in a move which has given Tenneco the lion's share of Europe's exhaust systems market, it now controls German exhaust systems maker Heinrich Gillet and Spanish exhaust and emissions controls group Fonos. The acquisitions have more than doubled the size of Walker's European business.

"Now is the time to start making sure we'll still be there," said Mr Snell of his prediction that there will be a further severe shake-out in the global automotive sector. "Vehicle manufacturers are becoming outspoken in their demands to shift engineering and development work to their suppliers, and as they go global they will want just one supplier for each component system. But that supplier will have to possess a substantial engineering base with the ability to manufacture locally around the globe."

Already, it is clear that Tenneco regards its rivals to be mainly North American multinationals - notably Arvin Industries - rather than European or even Japanese groups.

"We see no signs of European players developing into global players of the size and resources we envisage as being needed, and Japanese component makers appear to be too strongly tied to Japanese vehicle makers to become truly global challengers," Mr Snell said.

Partial support for Mr Snell's view of the future was pro-

vided recently at the UK motor industry's centenary celebrations, when Mr George Simpson, president of the UK's Society of Motor Manufacturers and Traders, predicted that the number of carmakers in Europe would also be slashed by 2010, and that by then the world industry would indeed need only 15-20 direct, but completely global, component suppliers.

Not surprisingly, however, as chief executive of Lucas Industries, Mr Simpson expects the UK components group to be among the global suppliers. Lucas itself is dedicating two-thirds of future investment to building up a global capability.

While projecting only modest growth for Tenneco Automotive in Europe and North America, "there are now hundreds of millions of people acquiring discretionary income for the first time in Asia and other developing countries; and the first thing they want is a car, even before roads and bridges," said Mr Snell.

"Even that should be good for our replacement shock absorber business," he added - only half jokingly.

John Griffiths

THE HANSON DEMERGER

Centrifugal forces that pulled Hanson apart

As another conglomerate splits, David Wighton analyses this four-way solution

To identify one of the driving forces behind Hanson's proposed four-way demerger requires only a quick look at its share price chart.

It is the picture of a company which has lost its way or one which investors, at least, believe is heading down a cul-de-sac.

After a dramatic rise in the early 1980s, the shares did little for the rest of the decade. In the 1990s they started to decline, first steadily, then precipitously.

Hanson had hoped that the acquisition of Eastern Group, the electricity company acquired for £2.5bn in September, would reverse the trend. But it did nothing to calm investors' concerns about Hanson's increased vulnerability to economic cycles following the quantum chemicals acquisition in 1992.

Institutions had started to convey to the board concerns about the direction of the group.

Yet Mr Derek Bonham, Hanson's chief executive and deputy chairman, insists that the decision is the natural next step in reshaping the group. That process has seen a company, built up through a series of

unrelated acquisitions in the 1980s, reorganised into the four main business groupings which it now proposes to demerge.

This has required a programme of disposals, most notably last year's demerger of an assorted group of small US businesses as a stand-alone company, US Industries. Still to come are the proposed sale of Cavendish Forest Industries and partial flotation of Suburban Propane, which Hanson believes will raise about £1.5bn.

Mr Bonham argues that this will leave Hanson with four coherent businesses in energy, tobacco, chemicals and building materials, all with "greater management and growth opportunities".

Hanson is the latest large international company to announce a demerger, leading some observers to declare that the conglomerate is dead.

But Mr Bonham denies that Hanson's move supports this view. "Lord Hanson and I continue to argue that there is a place for con-

glomerates in this world." He believes merely that the move makes sense for Hanson at this stage, given its size and the nature of its businesses.

Size is important because, as it has grown, Hanson has found it increasingly difficult to find financially driven acquisitions large enough to make a difference, and changes in accounting regulations have made Hanson-style acquisitions less apparently attractive.

During the 1980s it bought a number of natural resources companies which had poor cash flow, that meant it could only fund large acquisitions by making disposals. This prompted the strategy adopted by Mr Bonham after he became chief executive in 1992. He tried to focus the group and increase the emphasis on growth through international investment rather than acquisition.

To encourage managers to concentrate on long-term development, Mr Bonham has introduced incentive schemes linked to the growth

of individual businesses. He believes this process will be more effective once the group is divided.

As yesterday's modest rise in the share price indicated, the demerger is not expected to add much to shareholder value in the short-term. In the cases of ICI and Racal, part of the rationale for demergers was that the stock market was undervaluing the group's constituent parts so making them vulnerable to takeover.

But most analysts believe there is little, if any, "hidden" value in Hanson. Mr Gavin Lauder, at SBC Warburg, calculates that Hanson's constituent parts would be valued at about 19p excluding the effects of the demerger. That compares with yesterday's close of 211/4p.

One benefit of the demerger would be that the constituents would be more vulnerable to takeover and the shares might include a premium to reflect that. In particular, Imperial Tobacco would be seen as an attractive target. Recent rumours that Hanson

itself could be the subject of a bid were never taken very seriously by the City, not least for tax reasons. Quite apart from the sheer size, a predator acquiring Hanson to break it up would face huge capital gains tax bills if it sold off Imperial or the US chemicals businesses. The complexity of Hanson's tax arrangements also acted as a deterrent.

But analysts believe any such short-term benefits from demerger will be outweighed by the costs. All four companies will engage merchant banks - with NM Rothschild acting for the continuing Hanson - and the legal complexities are bound to generate substantial professional fees.

There will also be some capital gains tax involved in the reorganisation. While Hanson stresses that it has not received clearance from the UK and US tax authorities, it adds: "Preliminary indication is that one-off corporate taxes and costs associated with the proposed demergers would be containable." But there will also be an increase

in on-going costs. The three new companies will have to set up their own head offices and their cost of debt will inevitably increase. Debt rating agencies yesterday put Hanson on credit watch.

In addition, Hanson's famously low tax charge will rise. This is largely because the group will have to unwind the offshore bank accounts where it has generated tax-free interest facilities which the demerged companies will not be able to replicate.

Despite these costs most observers and institutional shareholders welcomed the move. "We always thought Lord Hanson would want to go out with a bang and this is the right thing to do for shareholders," said one large investor.

Some analysts also applauded the hint that aggregate dividends might fall after the demerger. "The level of dividends had become unsustainable, yet it was hard to see Lord Hanson being able to stomach a cut," said one.

of Hanson's ticklish management issues. Many institutions have been unhappy about the way family connections still play a part at Hanson, where Mr Christopher Collins, married to Lord Hanson's niece, is deputy chairman, and Lord Hanson's son Robert is corporate development director. "This may be seen as less of a problem at rump Hanson," said one observer.

Meanwhile, Mr Bonham, who has been operating under Lord Hanson's shadow, would get to head the separate energy and tobacco businesses with Mr Bill Landuyt, head of Hanson's US businesses, taking over chemicals.

This job would presumably have fallen to Mr David Clarke, Lord White's protégé in the US, if he had not left to run US Industries. But Lord White, who died in August, would have approved of the demergers according to Mr Andrew Arden, a former acquisitions manager at Hanson. "Lord White would have thought it an elegant solution to let the market decide how much the parts are worth. The interesting question is which of the four he would have gone with."

TOBACCO - By RODERICK ORAM

An Imperially lavish cash cornucopia

Nothing in Hanson makes money like Imperial Tobacco, which has the second largest share of the UK cigarette market and is arguably the best deal Lord Hanson ever made.

It generated £348m in operating profits last year, one-fifth of the group total, on some £780m of sales net of excise duties and only £54m of capital. Even by the standards of the tobacco industry, its 45 per cent operating margin and 850 per cent return on capital employed is lavish.

But for all that, it ranks below 20th in the world with only minor sales abroad. Thus it is likely to be taken over by another cigarette company seeking greater UK exposure.

Lord Hanson paid £2.5bn for Imperial in 1986, then a rambling and ill-managed conglomerate. He promptly sold £2.4bn of assets such as Courage, the brewer, Golden Wonder crisps, Ross Young's frozen foods, HP sauces and Happy Eater restaurants.

The remaining tobacco business, based in Bristol, was transformed into the lowest cost manufacturer in Europe by Mr Ron Fulford who will remain its chief executive. From 1987 to 1995, productivity rose 180 per cent and profits 12-fold on sales up a mere 5 per cent.

Given Imperial's prodigious cash flow and steady earnings, Hanson will probably shift to Imperial a disproportionately heavy £1bn of group debt.

Debt-free, analysts estimate

Imperial is worth roughly £2.5bn, but its market value will be net of the debt it carries.

Critical to investors, though, will be Imperial's ability to pay dividends, because tobacco stocks are bought for income. Philip Morris, maker of Marlboro, trades on a dividend yield premium of about 60 per cent to Dow Jones Industrial Average stocks; BAT Industries, of the UK, is about a 35 per cent premium to the FT-SE 100 index.

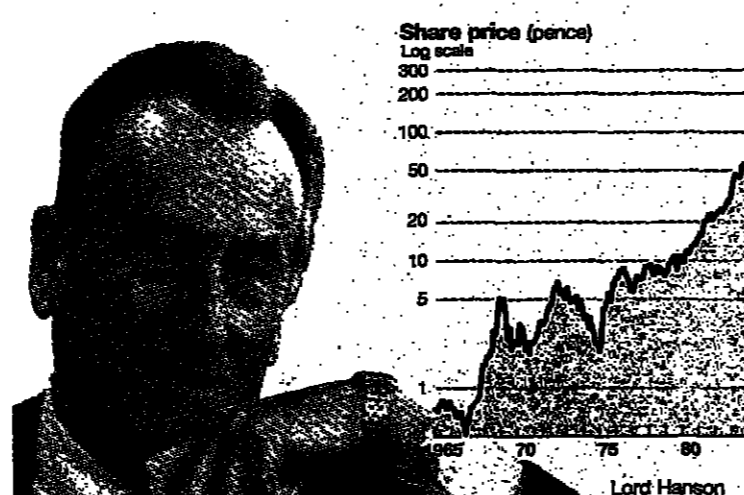
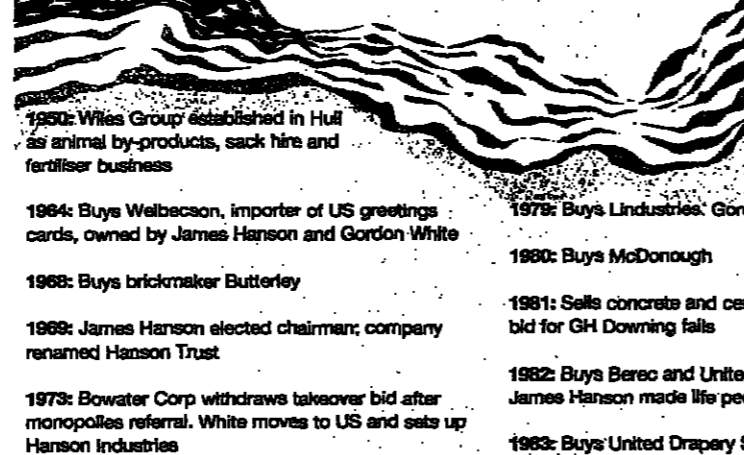
The outlook for Imperial as an independent company is mixed. On the one hand it is likely this year to overtake Gallaher, owned by American Brands, as the UK market leader. With brands such as Regal, Embassy and Superkings it has about 42 per cent of a steadily declining market.

But fast growing overseas markets, particularly in the emerging economies of eastern Europe and east Asia, are the industry's salvation from litigation and falling consumption in developed markets. Imperial derives only 15 per cent of its sales abroad and does not have brands strong enough to exploit overseas potential. BAT makes 20 times as many cigarettes as it does.

As a stand alone company, however, it is likely to attract a predator or a partner with a company weak in the UK but stronger elsewhere.

BAT, which has no UK sales for historic reasons, would seem to be the most likely candidate. But it is believed to be far more interested in Gallaher, if American Brands were ever to sell it. A merger of the two would allow BAT to reunite ownership of brands such as Benson & Hedges and Silk Cut which are geographically split between the two companies. More likely candidates are Reemtsma of Germany, with its strong position in eastern Europe, or even Japan Tobacco. Imperial has strong ties with both. Certainly, independence may be short-lived for Imperial.

Tying and untying the knot.



BUILDING MATERIALS - By ANDREW TAYLOR

Core interests to carry on the company name

Butterley Brick, bought for £2.8m in 1968, was one of the first takeovers by Mr James Hanson, who will give his name to the building materials businesses.

The "new" Hanson, chaired by the group's co-founder until his retirement next year, will remain a powerful force in building materials. Analysts said it was likely to be a FT-SE 100 company, with estimates of its value ranging from £1.5bn to £2.5bn, depending how much debt is put into it. It will also house other members of the deal-making Hanson clan. Mr Christopher Collins, married to Lord Hanson's niece, will be deputy chairman and likely to succeed to the chairmanship. Lord Hanson's son Robert, 35, will be on the board.

As well being the UK's biggest brick maker, new Hanson will be one of the world's largest quarry operators, supplying construction industries in the UK and the US.

Businesses in the group generated operating profits of £286m on turnover of £2.31bn in the 12 months to September 30. The chief executive will be Mr Andrew Dougal, Hanson's finance director. Subsidiaries include Grove, one of the world's largest crane manufacturers, and Hanson Electrical, supplying accessories from plugs to switchgear. Another constituent is Hanson's 12.5 per cent stake in the National Grid, valued at more than £400m, which is expected to be sold. Analysts also believe that Grove and the electrical bus-

ness may be sold, leaving the new company to concentrate on quarry and bricks.

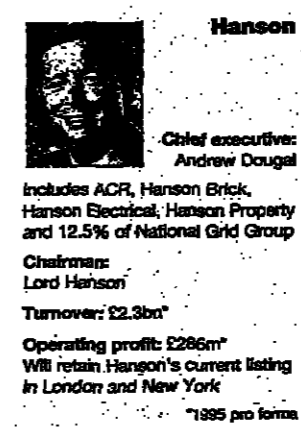
The biggest profits earner last year was ARC, the UK quarry operator which came with Hanson's £3.3bn takeover of Consolidated Goldfields in 1989. Despite a difficult construction market last year, ARC increased operating profit from £68m to £84m on flat turnover of £563m. Cornerstone, the California-based quarry operator, produced unchanged profits of £50m on increased turnover of £930m. It brings with it a large part of Hanson's £1.4bn of environmental liabilities.

Quarries have been regarded as the classic Hanson investment. They have low overheads, generate lots of cash, and the value of the assets -

rock, sand and gravel - is underpinned by the difficulty, in the UK at least, of winning planning permission for mineral extraction.

ARC, with an 18 per cent market share, will be the second largest producer of aggregates behind Tarmac, according to SBC Warburg. Tarmac will have a 24.5 per cent share when it completes an asset swap with Wimpey. ARC will also be second to Tarmac in coated stone for road construction, with a 16 per cent share.

Mr Mark Stockdale, SBC Warburg's construction analyst, says: "There could be further rationalisation in this sector if ARC decides to close the gap on Tarmac by purchasing some smaller players, particularly if it has the proceeds from disposals behind it."

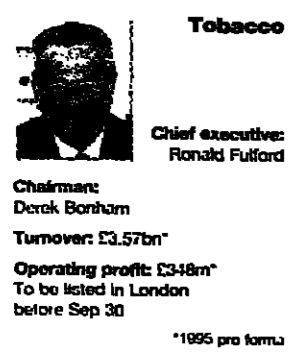


Much will depend on the level of debt with which the new company is laden. Takeover candidates for ARC could include quarry operators Bar-

den and Camas, say analysts. Hanson followed its purchase of Butterley by buying London Brick for £245m in 1984. It has about 30 per cent of the UK brick market, ahead of Redland and Istock. Hanson's brick division last year increased its profits from £23m to £38m, despite the difficult housing market.

It is now turning its attention to continental Europe, with the planned acquisition of Destimpel Kortemark, one of the largest brick producers in the Benelux countries, in a deal worth about £195m including debt.

Hanson Properties, which plans a £500m new town at a disused brick works near Peterborough, will also be joining the building materials company.



CHEMICALS - By JENNY LUESBY

Cycle turns on bumpy path of price rises and overcapacity

It is likely to be many years before the Hanson chemicals business sees a year as good as 1995. Built around two companies, Quantum and SCM, it is a medium-sized force in two highly volatile sectors.

A rough estimate of its value, without any debt, is £3bn-plus. This could be inflated by the prospect of a bid, although some potential predators would run into anti-trust barriers.

The centrepiece is Quantum, which specialises in plastics. In 1993, Hanson bought Quantum for £2.3bn (£1.5bn) at the bottom of the cycle, and quickly benefited from a surge in prices - the price for one typical polyethylene product rose from 29 to 32 cents a pound.

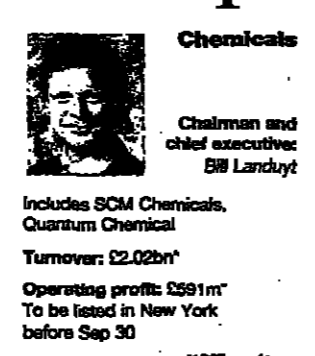
Hanson estimated that each one cent movement boosted Quantum's profitability by \$40m a year, taking last year's operating margins above 30 per cent on sales of £1.4bn.

However, a reversal followed, and prices for the same

polyethylene product are now 39 cents a pound. Analysts predict a stabilisation at this level. The group's other large chemicals business, SCM, with sales of £631m last year, is also in a cyclical sector, producing titanium dioxide which is used as a white pigment in almost every type of coating.

Titanium dioxide has been beset by overcapacity, with shortages in the late 1980s prompting a spate of new plant that subsequently flooded the market, pushing prices down from \$2,400 a tonne in 1990 to \$1,700 by 1994.

Steady demand growth began to take up the slack last year, pushing up prices and allowing producers to operate at more than 85 per cent of capacity. This almost immediately prompted expansion plans, with SCM among the most aggressive. Between 1991 and 1995 it increased its titanium dioxide capacity 29 per cent. By 2000 it plans to expand by a further 22 per cent.



The take-up of this new product will depend on the paper industry and paint manufacturers, two of the largest buyers of titanium dioxide, both of which are under pressure. "Clearly there are problems ahead," said one analyst yesterday, anticipating renewed overcapacity as early as next year.

However, Mr Derek Bonham, Hanson's chief executive, said the company was confident it

would not run into overcapacity problems, thanks to gains in market share. SCM would soon be the second largest titanium dioxide producer in the US, he said, moving up from third position. The other two big players are Du Pont and ICI's Tioxide subsidiary.

The third, and by far the smallest, element of the new chemicals company will be Glidco, a successful niche manufacturer of predominantly terpentine-based fragrances and flavours. The grouping also includes a speciality chemicals business, which feeds other chemical producers with vinyl acetate monomer, acetic acid and ethyl alcohol.

The outlook for the combined chemicals business is for steady growth over the next two years, after a dip in profits to about £443m this year, according to Mr Chris Alexander, analyst with Lehman Brothers. He forecasts profits of £500m for 1997.

ENERGY - By DAVID BLACKWELL

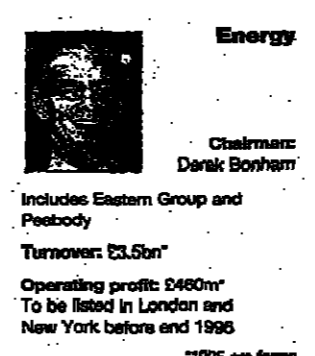
Eastern heads out after a mere five months in the family fold

Eastern Group, which became part of Hanson only last September, will be the largest part of an energy group with combined sales of £3.5m.

Hanson is planning to put it with Peabody, the world's largest private sector coal miner and a leading US distributor of propane gas. Combined operating profits were about £400m last year.

While its debt level has yet to be determined, the energy group would not benefit from the sale of Eastern's stake in National Grid, which Hanson has attached to the building materials group.

Analysts said the group would be similar in size to PowerGen, one of the UK's two big electricity generators, which is valued at £3.8bn and has no debt.



tribution in the south-east of England.

However, the bulk of its sales are derived from the low-margin supply side of the industry. Eastern has a 360MW gas-fired power station in Peterborough and is building another for £165m in Norfolk.

Eastern has been more heavily involved in power generation than any other rec. At about the time of the takeover, it bought two coal-fired power

stations from PowerGen, tripling its share of generation capacity in England and Wales to about 8 per cent.

Since the takeover, it has continued to be a front-runner to buy three more coal-fired power stations, for more than £1bn, from National Power. If it were to complete the deal - and the Monopolies and Mergers Commission is looking into vertical integration in the electricity industry - its share of UK capacity would rise to about 14 per cent.

Eastern has also built itself into the fourth largest supplier of gas in the UK. It plans to take advantage of further deregulation due in both the electricity and gas supply industries.

Hanson's accounts show that St Louis-based Peabody had a difficult time last year. While profits rose from £149m to £215m, the underlying trend was down after excluding acquisitions and the effect of a strike in 1994. Peabody will

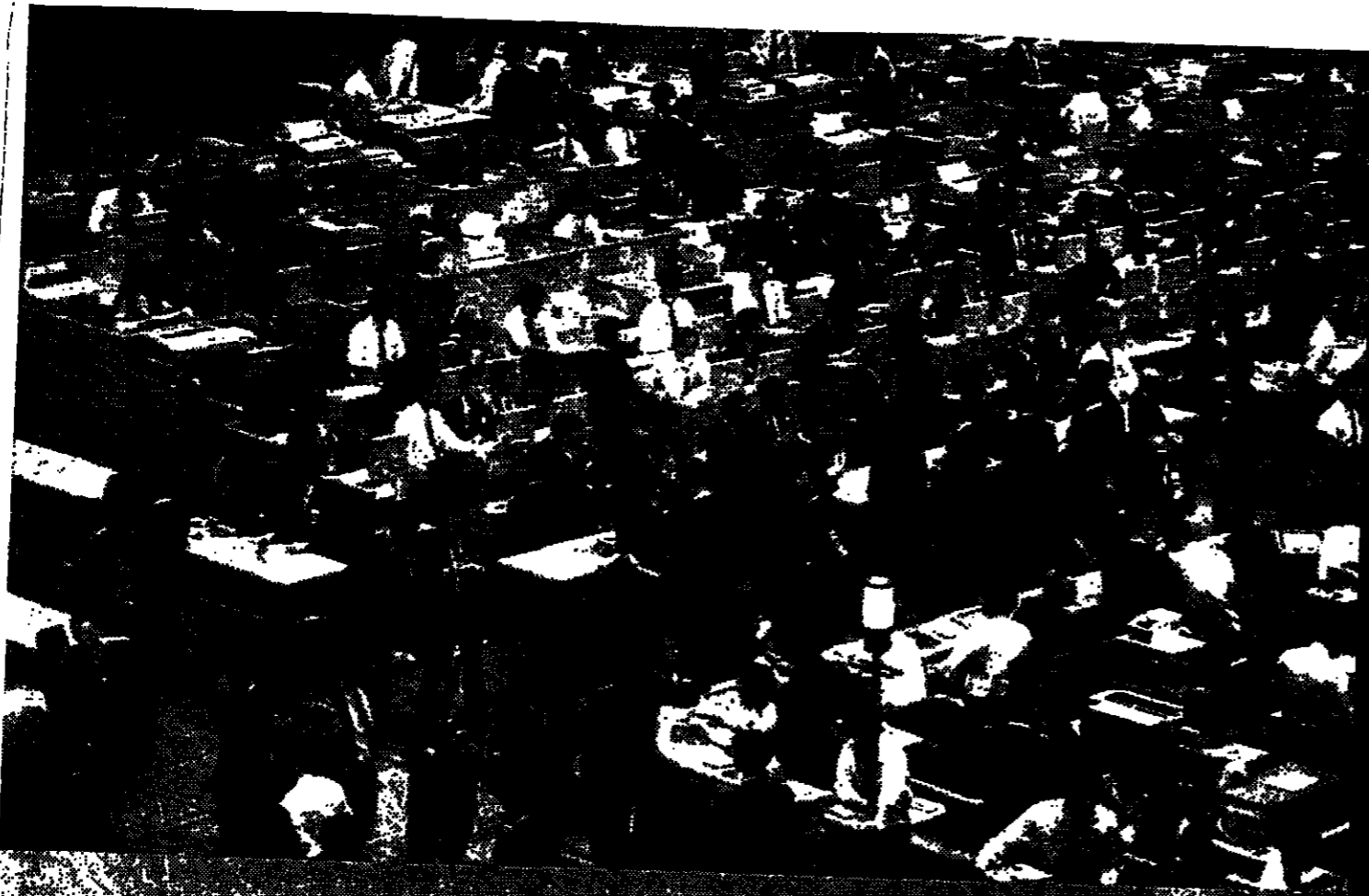
bring with it the bulk of Hanson's £2.3bn healthcare liabilities which relate to black lung disease.

However, ahead of the Eastern takeover, Peabody had already expressed interest in power generation projects in Asia, with the aim of securing long-term coal supply contracts. Eastern was seen as adding expertise in electricity generation, supply and distribution.

Eastern had looked at international opportunities before the takeover, but realised that meaningful investments could be risky for a company its size. But Mr John Devaney, its ambitious chief executive, said yesterday that "as time goes by, we will look outside and take advantage of the work already done by Peabody".

Mr Devaney, who would be joint chief executive with Mr Irl F Engelhardt of Peabody, said the group would be a significant force in the world energy market.

apart



Across borders.

Across industries.

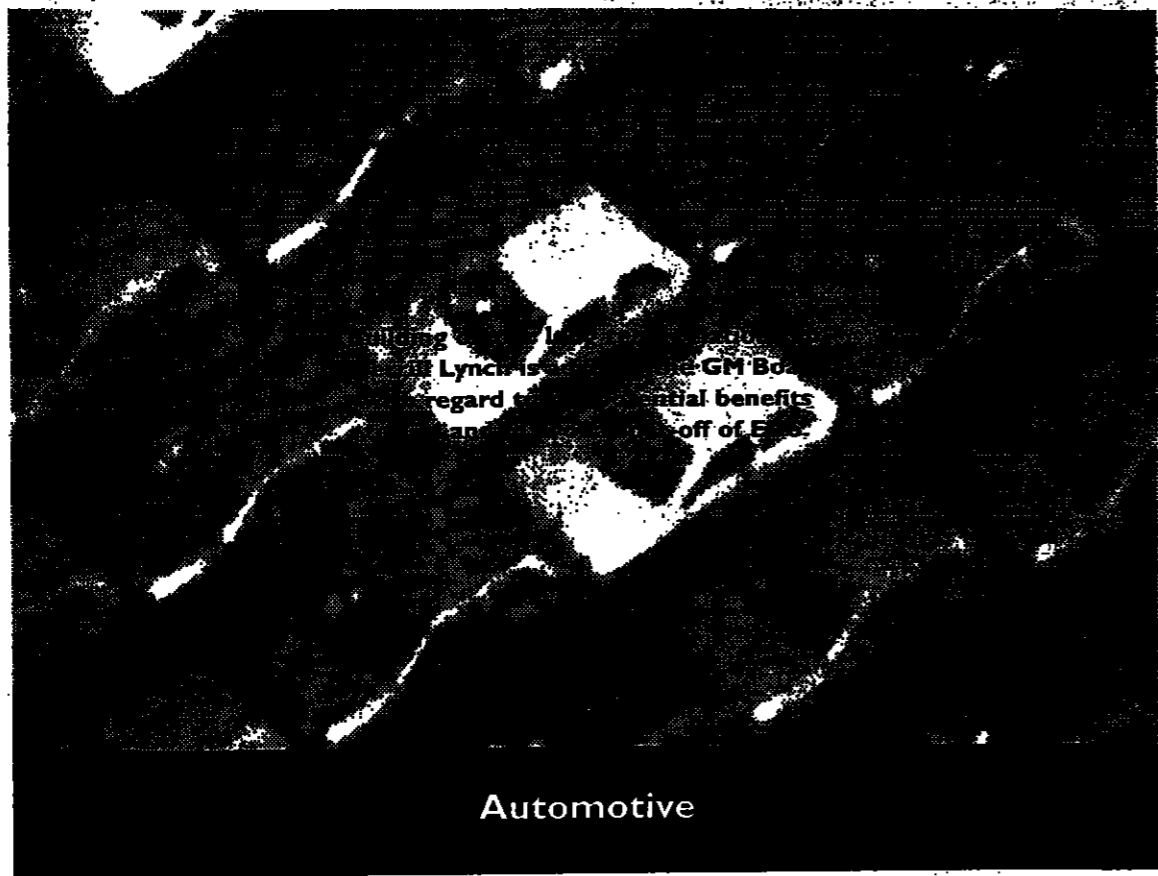


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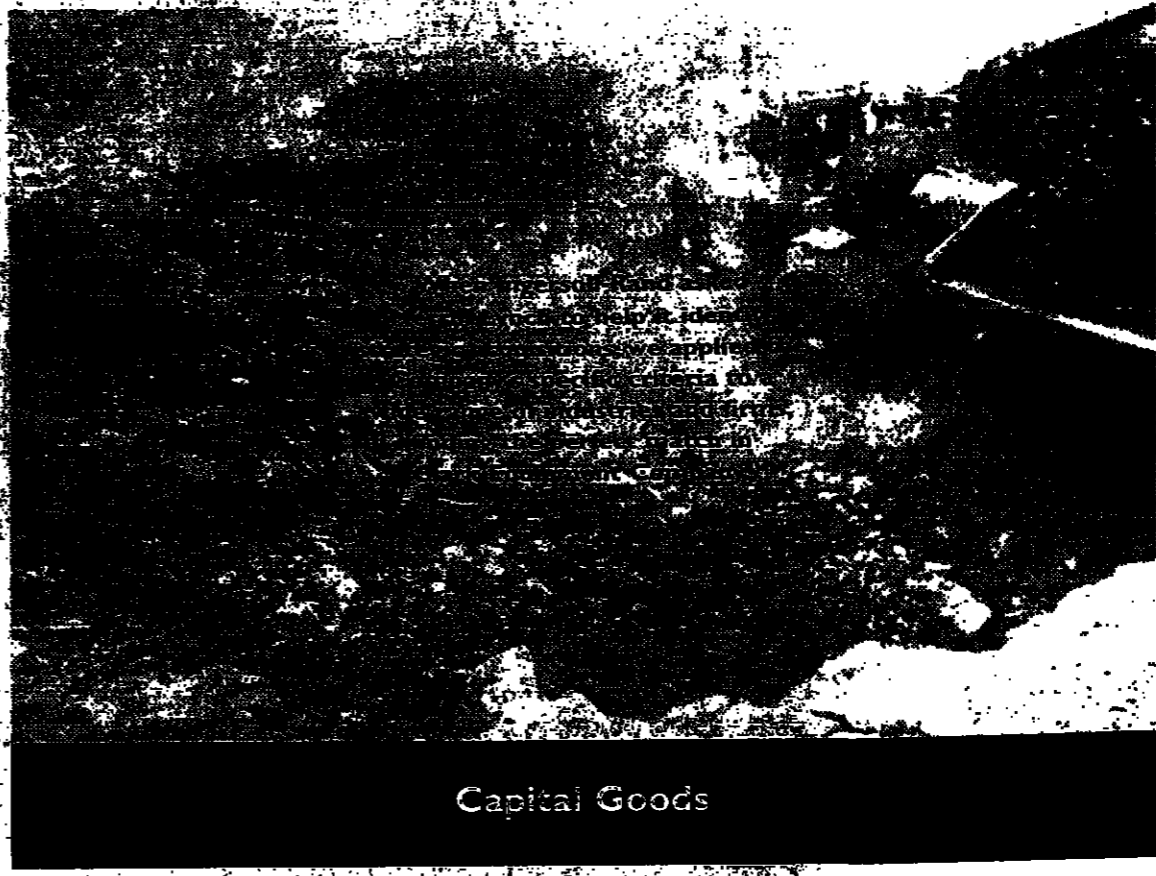
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One firm's advice, capabilities and commitment to its clients made a world of difference.



Automotive



Capital Goods

AB Volvo acquired the 50% it did not already own of **VME Group N.V.** from **Clark Equipment Company** \$573,000,000

Arvin Industries, Inc.'s majority owned subsidiary **Space Industries International, Inc.** was acquired by a management group \$42,600,000

Chrysler Financial Corporation Retail Auto Loan Securitization \$1,249,987,527

Dana Corporation acquired the 43% it did not already own of **Hayes-Dana, Inc.** \$82,700,000

Detroit Diesel Corporation acquired **VM Motori SpA** from **Montagu Private Equity Limited** \$125,000,000

Ford Motor Company **TOPS™ Exchange Offer** \$631,838,300

Deal of the Year
General Motors Corporation consideration of potential split-off of **Electronic Data Systems Corporation** \$25,000,000,000

General Motors Corporation Tender Offer for various series of **Fixed Rate Preference Stock** \$1,290,224,000

General Motors Corporation contributed 173 million shares of **GM Class E Common Stock** (Electronic Data Systems Corporation) to the **GM U.S. Hourly-Rate Employees Pension Plan** \$6,900,000,000

Key Manufacturing Group Limited Partnership was acquired by **JPE, Inc.** Value not disclosed

Larizza Industries, Inc. was acquired by **Collins & Aikman Corporation** \$174,000,000

Snap-on Incorporated acquired an additional 60% stake in **EDGE Diagnostic Systems** Value not disclosed

Snap-on Incorporated acquired **Consolidated Devices, Inc.** Value not disclosed

Snap-on Incorporated acquired **Herramientas Eurotools, S.A.** Value not disclosed

Toyota Motor Credit Corporation Eurobond \$750,000,000

Volvo Group Finance Europe BV Samurai Bond \$15,000,000,000

World Omni Financial Corp. (a subsidiary of **JM Family Enterprises, Inc.**) Retail Auto Lease Securitization \$675,416,081

Ampheoul Corporation Common Stock \$93,000,000

AVX Corporation Common Stock \$557,000,000

CARDO AB Common Stock SKR502,773,000

Case Credit Corporation Equipment Contracts Securitization \$650,000,000

Caterpillar Financial Services Corporation Equipment Contracts Securitization \$459,119,445

Caterpillar Inc. has agreed to acquire an equity stake in **E.G. Wilson (Engineering) Limited** from **Emerson Electric Co.** Value not disclosed

Coats Viyella Plc, through its subsidiary **Dynacast International Ltd.** acquired **BACE Manufacturing, Inc.** \$102,000,000

Danaher Corporation acquired **Joslyn Corporation** \$245,000,000

Elsag Bailey Process Automation N.V. (a company of the **Finmeccanica Group**) acquired **Hartmann & Braun** from **Mannesmann AG** \$718,000,000

Elsag Bailey Process Automation N.V. Common Stock \$60,000,000

ESSTAR Incorporated was acquired by **Adas Copco AB** \$570,000,000

Ercon Holdings Inc. was acquired by **York International Corporation** \$133,000,000

Fluor Corporation has agreed to acquire a 54.5% stake in **Groundwater Technology, Inc.** Value not disclosed

General Signal Corporation has agreed to sell its **Leeds & Northrup Division** to various buyers Value not disclosed

Giddings & Lewis, Inc. acquired **Fadal Engineering Co., Inc.** \$180,000,000

Ingersoll-Rand Company acquired **Clark Equipment Company** \$1,500,000,000

Institutum Technologies, Inc. acquired **Institutum Mid-America, Inc.** \$189,000,000

IRO AB Common Stock SKR730,000,000

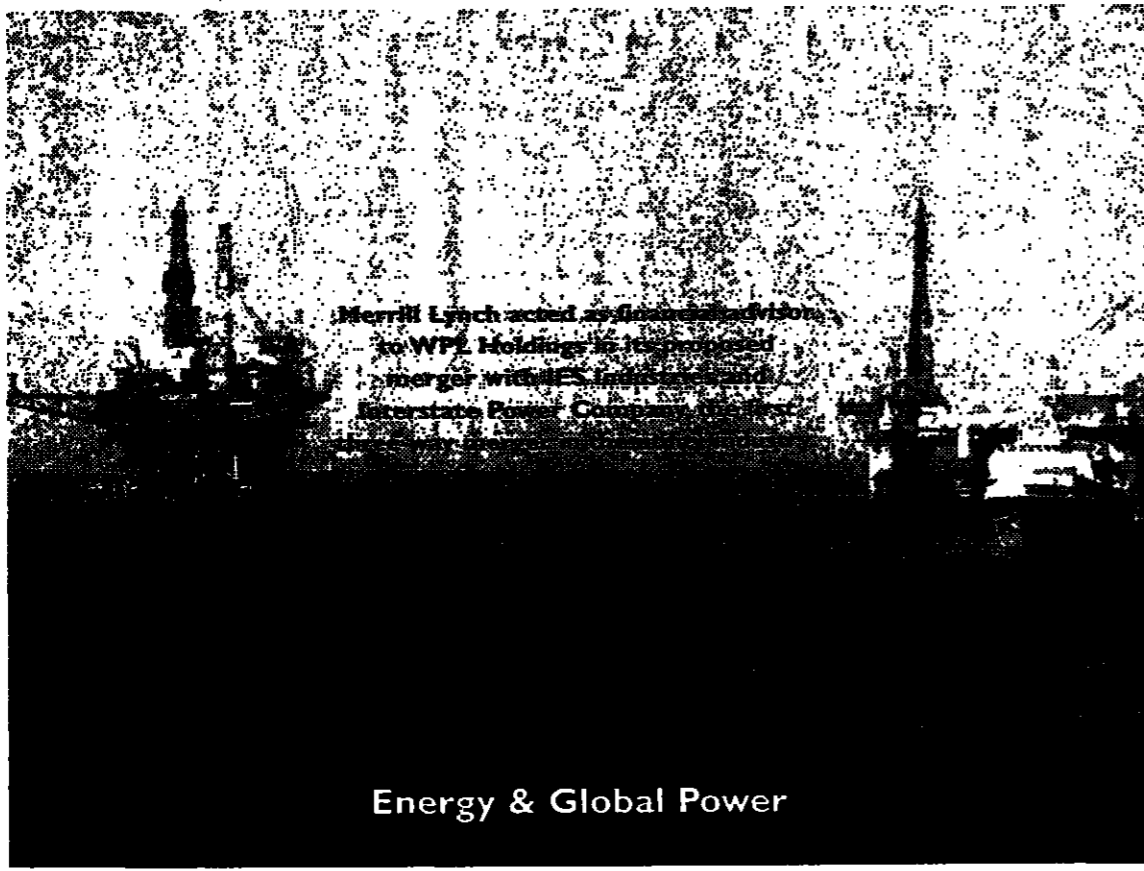
Kemet Corporation Common Stock \$146,000,000

The Lincoln Electric Company Common Stock \$129,000,000

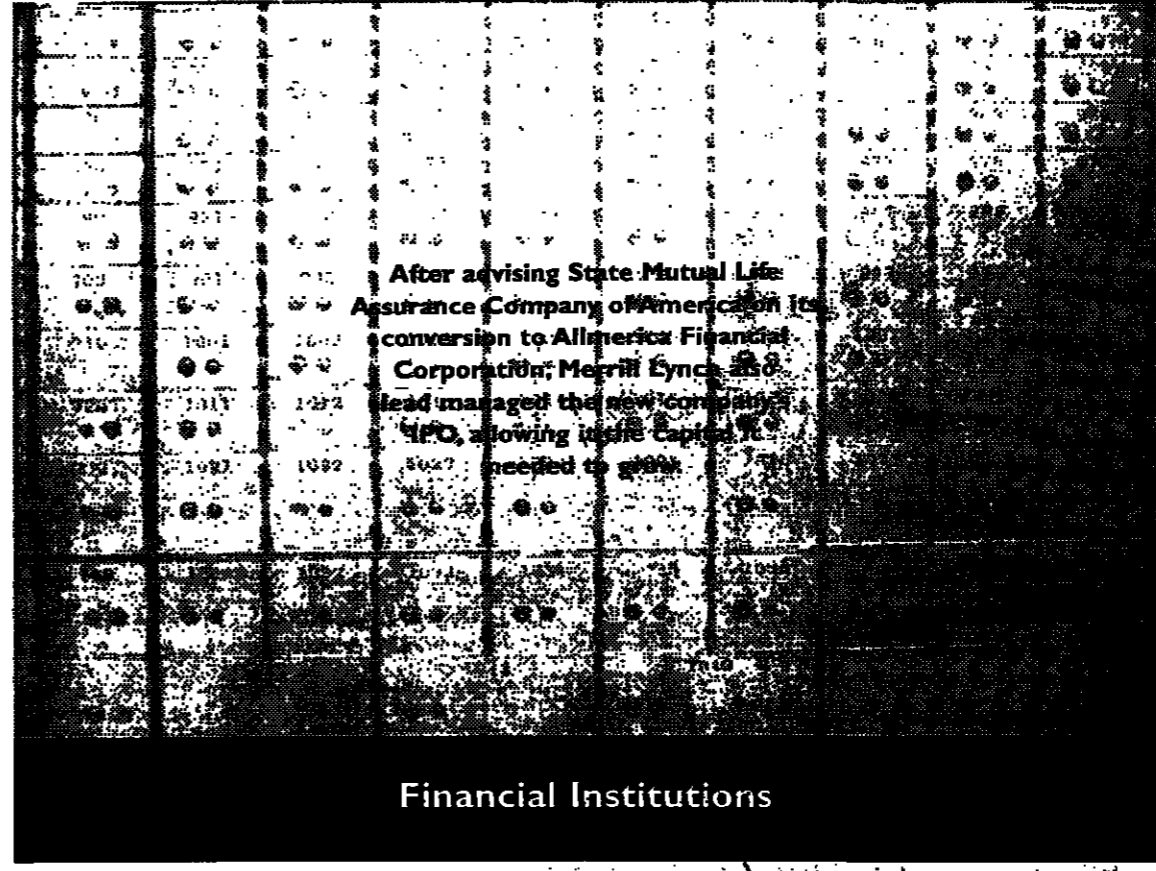
Tyco International Ltd. Common Stock \$432,000,000

United Technologies Corporation through its subsidiary **Otis Elevator Company** acquired **Boral Building Technologies** from **Boral Ltd.** Value not disclosed

Waters Corporation Common Stock \$166,000,000



Energy & Global Power



Financial Institutions

Apache Corporation Common Stock \$204,000,000

Arcthusa (Off-Shore) Limited has agreed to be acquired by **Diamond Offshore Drilling, Inc.** \$666,000,000

Atlanta Gas Light Company Common Stock \$50,000,000

Atlantic Richfield Company acquired a minority stake in Russian state-owned **Lukoil** through the acquisition of convertible bonds \$250,000,000

BJ Services Company acquired **The Western Company of North America** \$519,000,000

Citizens Utilities Company Class B Shares \$254,000,000

Consolidated Natural Gas Company Debentures \$150,000,000

Cross Timbers Oil Company Common Stock \$61,000,000

DEKALB Energy Company merged with **Apache Corporation** \$285,000,000

Delmarva Power & Light Company acquired **Conowingo Power Company** from **PECO Energy Company** \$150,000,000

DLB Oil & Gas, Inc. Common Stock \$30,000,000

Eron Corp. Notes \$100,000,000

First Reserve Gas Company was acquired by **Crystal Oil Company** \$78,000,000

Hydro-Quebec Debentures \$300,000,000

MCN Corporation Common Stock \$103,000,000

Magyar Olaj-es Gazipari Rt. Global Depository Shares \$165,000,000

NorAm Energy Corp. Notes \$200,000,000

Panhandle Eastern Corporation Debentures \$200,000,000

Petro-Canada Common Stock \$1,350,000,000

Santa Fe International Corporation sold certain oil and gas assets to various buyers \$436,000,000

Deal of the Year
Tennessee Valley Authority Bonds \$1,000,000,000

Texas Meridian Resources Corporation Common Stock \$40,000,000

Tidewater Inc. has agreed to acquire **Hornbeck Offshore Services, Inc.** \$271,000,000

Breakthrough Deal
Transco Energy Company merged with **The Williams Companies, Inc.** \$3,000,000,000

United Meridian Corporation Senior Subordinated Notes \$150,000,000

Weatherford International Incorporated merged with **Enterra Corporation** \$690,000,000

WPL Holdings, Inc. has agreed to a three-way merger with **IES Industries Inc.** and **Interstate Power Company** \$3,800,000,000

Abbey National plc STG200,000,000 Exchangeable Capital Securities \$2,085,200,000 Preference Shares

Allmerica Financial Corporation Common Stock \$266,000,000

Argentaria Capital Funding Ltd. Preference Shares DM200,000,000

Banco Comercial Portugues, S.A. in partnership with **Companhia de Seguros Insuperio** acquired **Banco Portugues do Atlantico** \$2,085,200,000

Banco Nacional de Mexico Electronic Transfer Master Trust 9.35% Certificates \$206,500,000

Bank of Boston Corporation has agreed to acquire **BayBanks, Inc.** \$2,100,000,000

Bank South Corporation was acquired by **NationsBank Corporation** \$1,600,000,000

Citicorp Fixed/Adjustable Rate Preferred Stock \$125,000,000

Corporación Andina de Fomento Yankee Bond \$250,000,000

First USA, Inc. Common Stock \$401,000,000

Fleet Financial Group has agreed to acquire **NatWest Bank N.A.** \$3,300,000,000

Fleet Financial Group conversion of 50% ownership in **Fleet Banking Group** to **Fleet common stock** \$961,000,000

KFV International Finance Inc. Yankee Bond \$250,000,000

Kohlberg Kravis Roberts & Co. has agreed to acquire **Talegen Holdings, Inc.**, including **The Resolution Group, Inc.** from a division of **Xerox Corporation** \$2,700,000,000

Liberty Mutual Insurance Company 8.20% Surplus Notes \$250,000,000

MBNA Corporation 7.50% Cumulative Preferred Stock \$150,000,000

Breakthrough Deal
Merrill Lynch & Co., Inc. 6.50% STRYPES™ Payable with shares of common stock of **MGIC Investment Corporation** \$258,000,000

Deal of the Year
Merrill Lynch & Co., Inc. acquired **Smith New Court PLC** \$842,000,000

Merrill Lynch & Co., Inc. Samurai Bond \$40,000,000,000

Midlantic Corporation was acquired by **PNC Bank Corp.** \$3,100,000,000

National City Corporation has agreed to acquire **Integra Financial Corporation** \$2,100,000,000

RenaissanceRe Holdings Ltd. Common Stock \$61,000,000

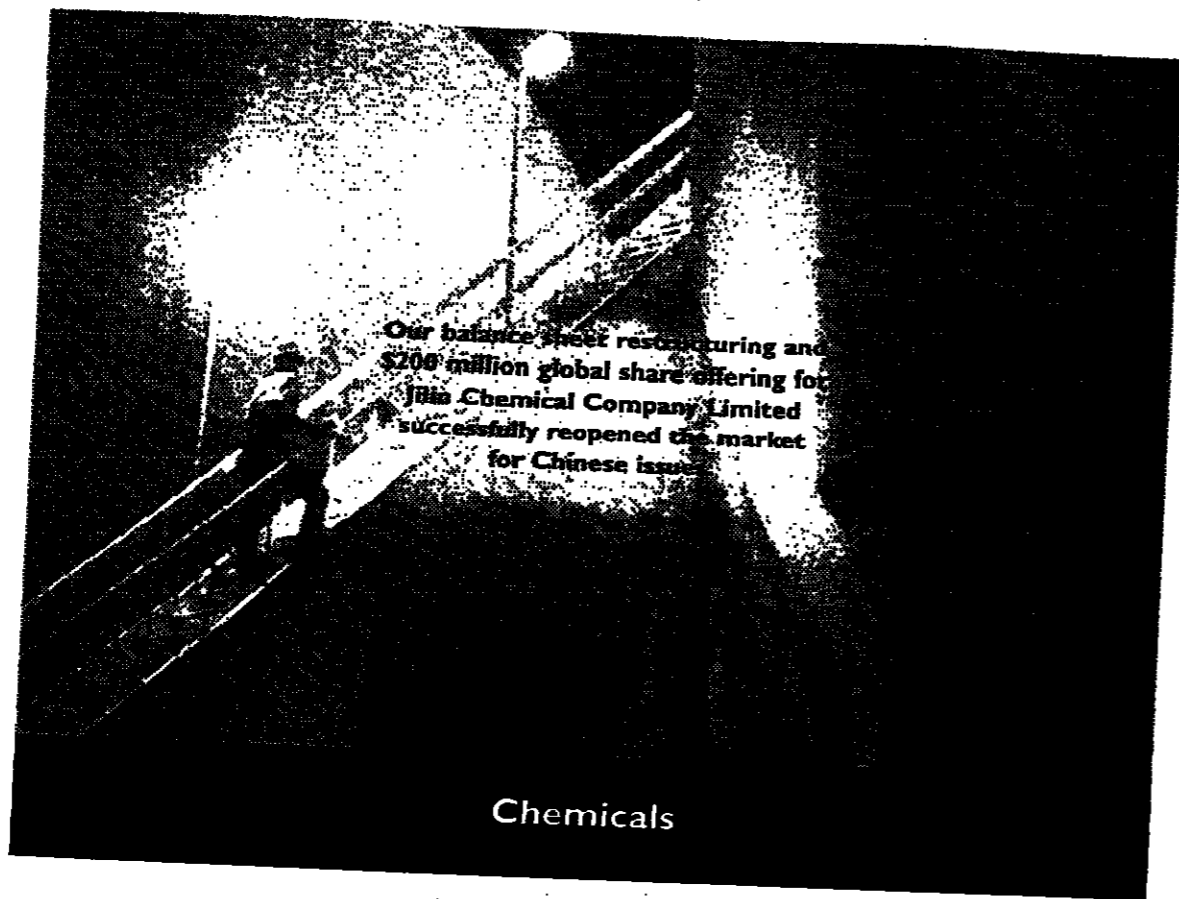
South Trust Corporation Common Stock \$94,000,000

Breakthrough Deal
SunAmerica Inc. TOPS™ Exchange Offer \$248,000,000

Swiss Bank Corporation Subordinated Notes and Debentures \$1,000,000,000

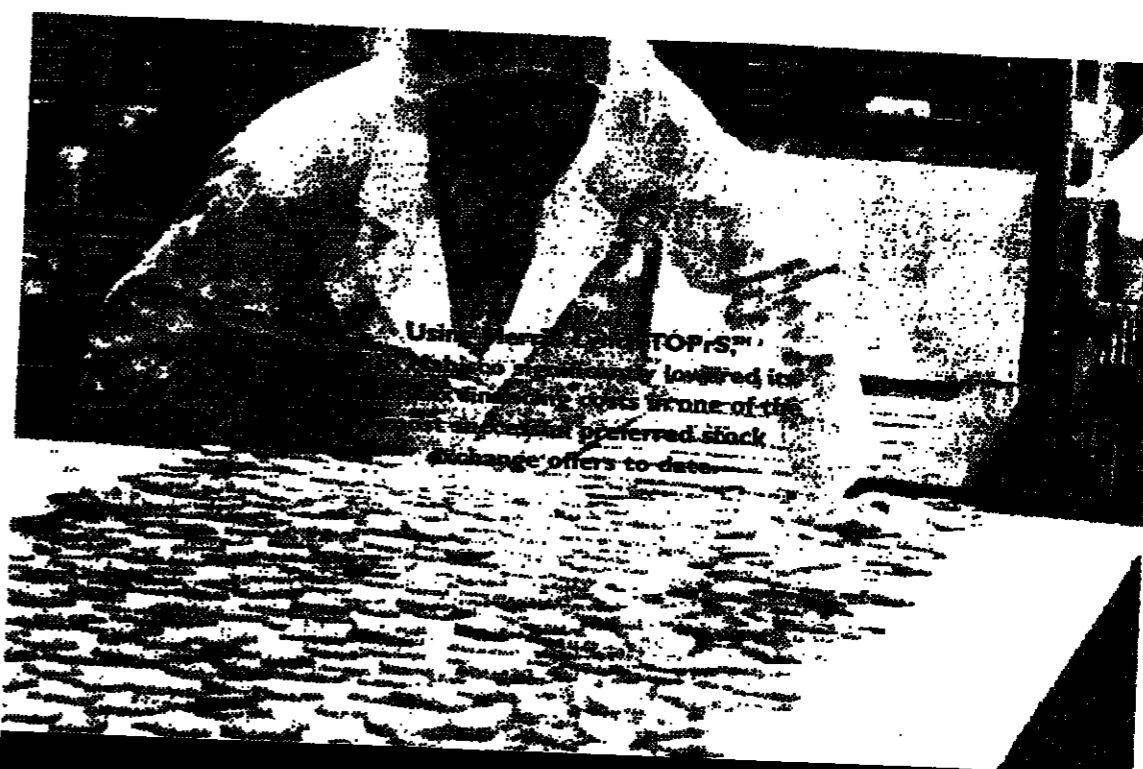
UJB Financial Corporation has agreed to acquire **The Summit Bancorporation** \$1,200,000,000

United Companies Financial Corporation 6.75% PRIDES™ Convertible Preferred Stock \$86,000,000



Our balance sheet results during an \$200 million global share offering for Jilin Chemical Company Limited successfully reopened the market for Chinese issues.

Chemicals



Using our TOPS™...
...of the...
...to...

Consumer Products/Food & Beverage

Applied Extrusion Technologies, Inc. Common Stock \$52,000,000
Cabor Corporation sold the business of Cabor Safety Corporation to a company formed by Vestar Equity Partners, L.P., management and Cabor Corporation \$205,000,000
CBI Industries, Inc. defense with respect to an unsolicited offer for its Liquid Carbonic subsidiary from Airgas, Inc. \$1,450,000,000

CBI Industries, Inc. has agreed to be acquired by Praxair, Inc. \$2,400,000,000
Ferro Corporation acquired the Synthetic Products Company from Cookson Group PLC \$92,000,000
FMC Corporation acquired Moorco International, Inc. \$320,000,000
W.R. Grace & Co. pending spin-off of its National Medical Care, Inc. subsidiary \$3,500,000,000

Deal of the Year
Jilin Chemical Industrial Company Limited Global coordinator for initial public offering \$200,000,000

MacDermid Incorporated acquired the Electronics and Printing Division of Hercules Incorporated \$130,000,000
Monsanto Company acquired the Kelco Division of Merck & Co., Inc. \$1,075,000,000
Pratt & Lambert United Inc. was acquired by The Sherwin-Williams Company \$482,000,000

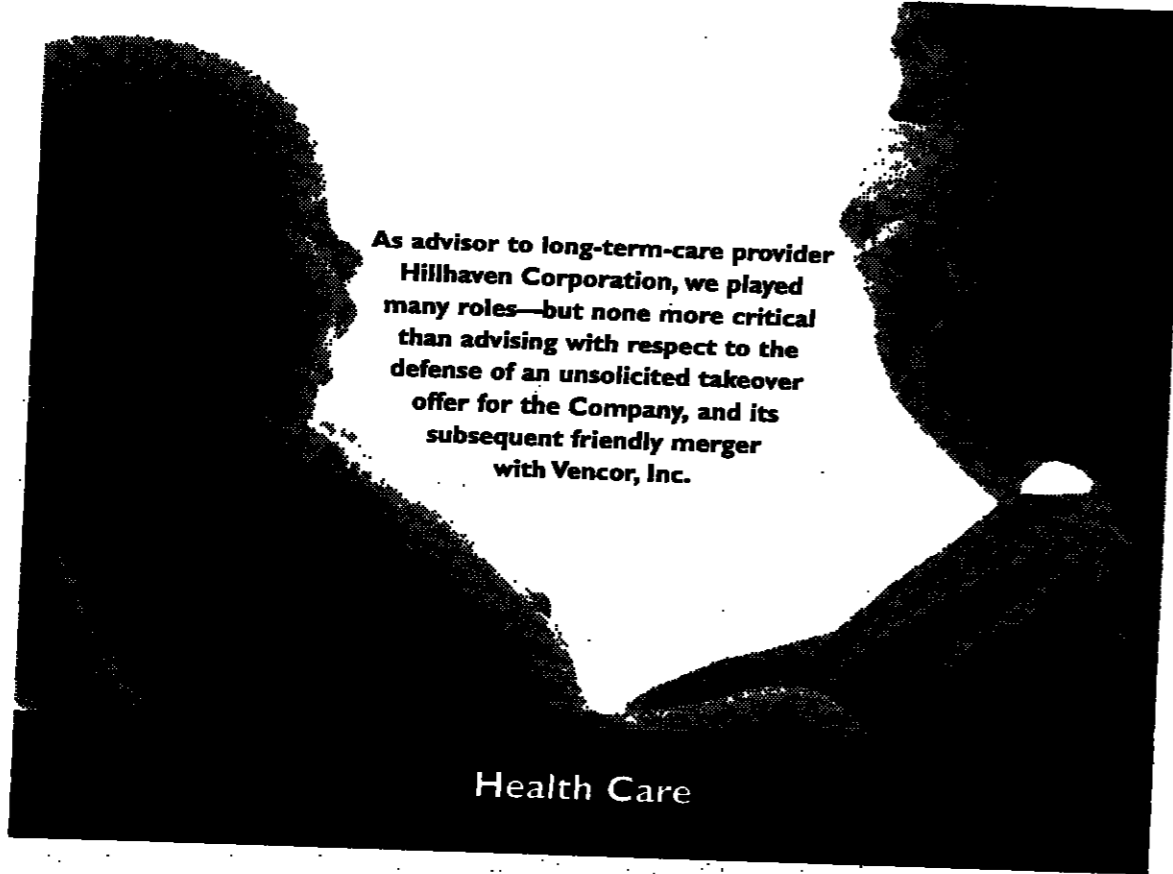
The Alberto-Culver Company has agreed to acquire St. Ives Laboratories, Inc. \$120,000,000
Auto-Shade, Inc. was acquired by a company formed by Code, Hennessy & Simmons II, L.P. Value not disclosed
Cadbury Schweppes Preference Shares \$400,000,000
De Rigo American Depository Shares \$142,000,000

The Dial Corp acquired Giltspx, Inc. a wholly owned subsidiary of Unigate PLC Value not disclosed
Duracell International Inc. Common Stock \$686,000,000
Golden Cat Corporation was acquired by Ralston Purina Company Value not disclosed
Industri Kapital 1989 Ltd and AB Fortos sold Partena AB to Financiére Sodexho S.A. and Sodexho S.A. \$235,000,000

Macdun Capital (Nevada) Inc. was acquired by an affiliate of Madison Dearborn Partners Capital, L.P. \$192,500,000
Mavesa S.A. acquired Yukery Venezolana de Alimentos C.A. Value not disclosed
Nabisco, Inc. Commercial Paper
Oakley, Inc. Common Stock \$265,000,000
Paragon Trade Brands, Inc. has agreed to acquire the Disposable Diaper Business of Pope & Talbot, Inc. \$65,000,000

Deal of the Year
RJR Nabisco, Inc. TOPS™ Exchange Offer \$950,000,000

RJR Nabisco, Inc. Consent/Exchange Solicitation \$5,400,000,000
Sysco Corporation Notes \$150,000,000
Tyson Foods Medium Term Notes \$150,000,000
Zenith Electronics Corporation sold a majority stake in the company to LG Electronics Inc. \$351,000,000



As advisor to long-term-care provider Hillhaven Corporation, we played many roles—but none more critical than advising with respect to the defense of an unsolicited takeover offer for the Company, and its subsequent friendly merger with Vencor, Inc.

Health Care

Access Health, Inc. Common Stock \$102,000,000
Allergan, Inc. established a newly formed company to fund its venture with Ligand Pharmaceuticals \$100,000,000
Boston Scientific Corporation acquired SCIMED Life Systems, Inc. \$1,007,000,000
CareerStaff Unlimited, Inc. was acquired by Sun Healthcare Group, Inc. \$119,000,000
Continental Medical Systems, Inc. was acquired by Horizon Healthcare Corporation \$775,000,000
Dura Pharmaceuticals, Inc. Common Stock \$57,000,000

Genesis Health Ventures, Inc. Senior Subordinated Notes \$120,000,000
Health Care Property Investors Common Stock \$50,000,000
HealthTrust, Inc.—The Hospital Company merged with Columbia/HCA Healthcare Corporation \$5,260,000,000
Hillhaven Corporation was acquired by Vencor, Inc. \$1,978,000,000
Hillhaven Corporation acquired Nationwide Care Inc. \$175,000,000
OrNda HealthCorp Common Stock \$203,000,000

Pyxix Corporation acquired Allied Pharmacy Management Inc. \$48,000,000
Roche Holdings, Inc. sold Syra Company to a subsidiary of Hoechst AG Value not disclosed
Roche Holdings, Inc. LYONS™ \$2,150,000,000
Schering-Plough Corporation sold its Wesley-Jessen contact lens business to Bain Capital, Inc. \$47,500,000
SmithKline Beecham Capital Inc. Notes SFR100,000,000

Synaptic Pharmaceutical Corporation Common Stock \$28,000,000
Tenet Healthcare Corporation sold its International Hospital Division to various buyers \$427,300,000
United Wisconsin Services, Inc. Common Stock \$51,000,000
WellPoint Health Networks Inc. pending recapitalization through a cash dividend followed by a reverse stock split \$1,225,000,000
WellPoint Health Networks Inc. has agreed to acquire the Group Life and Health unit of Massachusetts-Mutual Life Insurance Company \$380,000,000

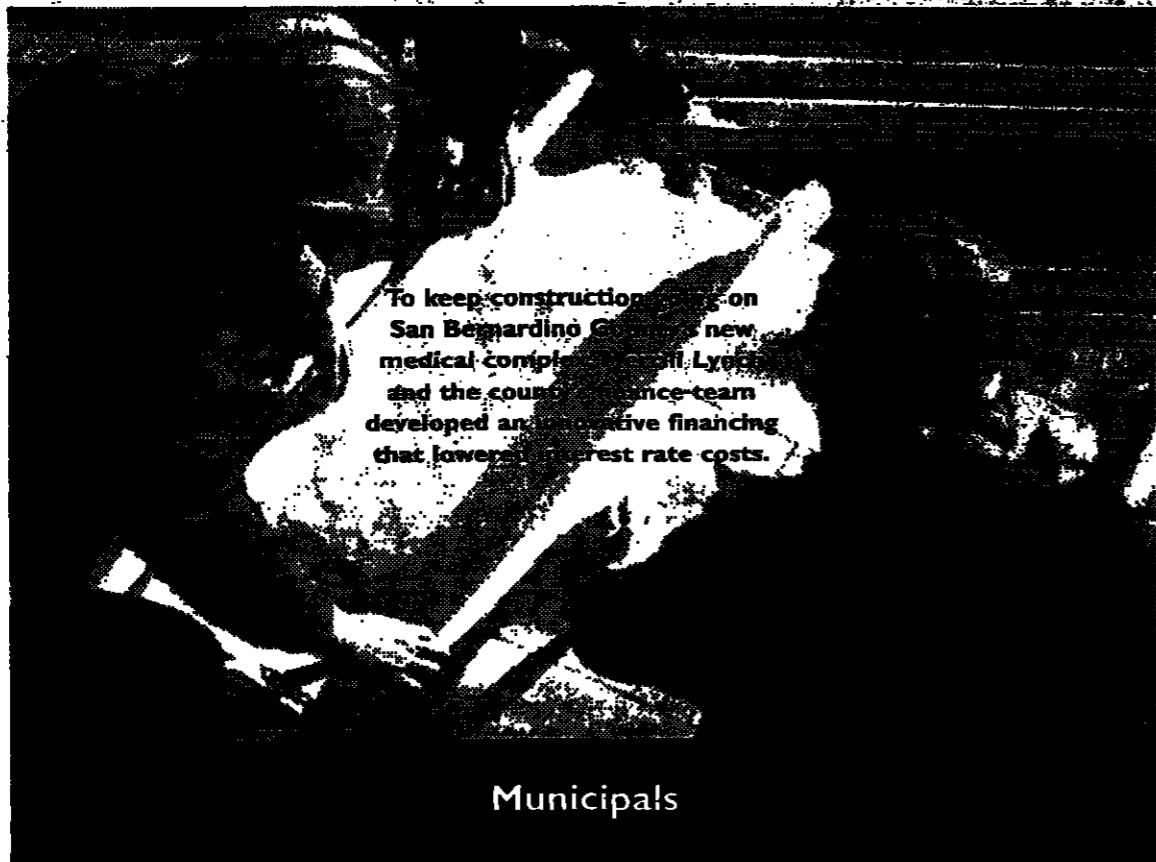
Fulfilling the financial needs of corporations, governments and institutions is a growing challenge.

For corporations worldwide it was a year of consolidation and reorganization. For governments and institutions, the global search for capital intensified. In-depth knowledge of global industries, economies and markets were critical to the success of any endeavor.

One firm delivered this knowledge to clients throughout the world.

The difference is Merrill Lynch.





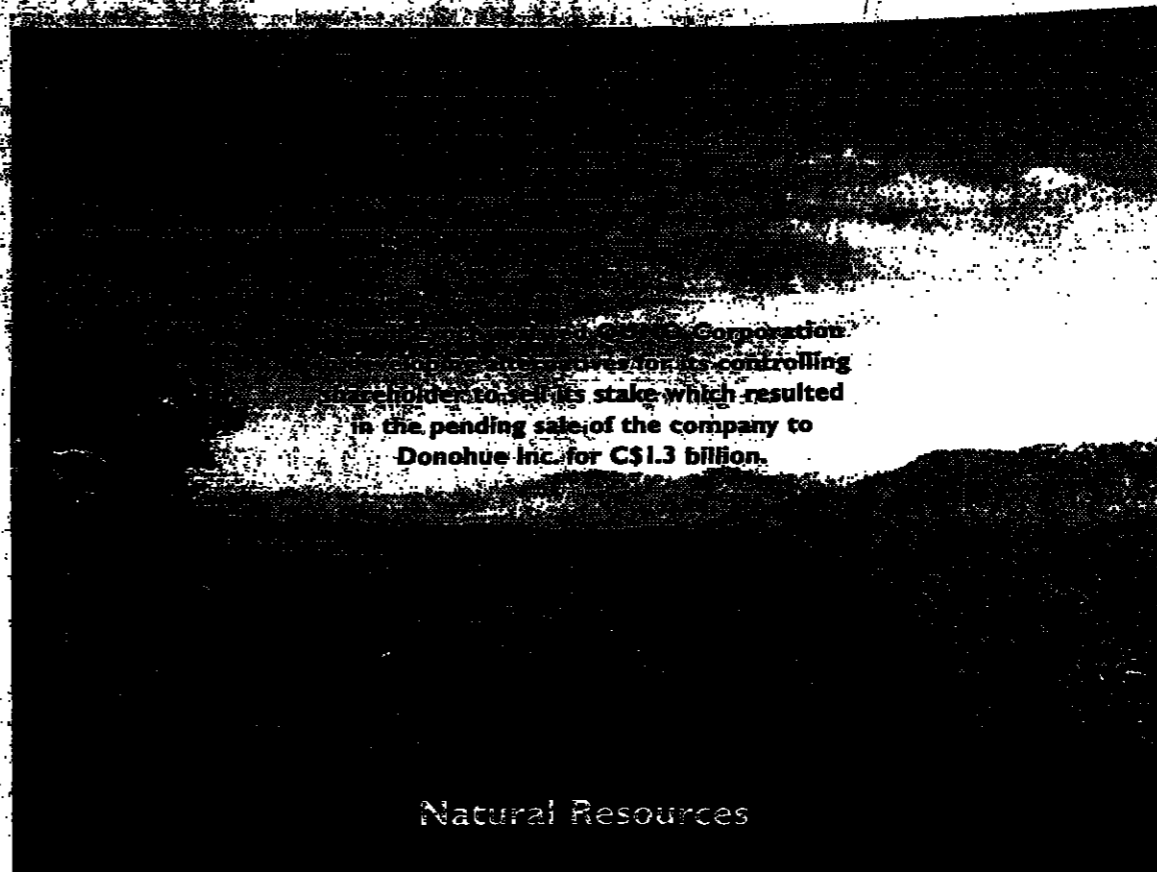
To keep construction on San Bernardino County's new medical complex, Lyden and the county finance team developed an innovative financing that lowered interest rate costs.

Municipals

- California Housing Finance Agency
Home Mortgage Revenue Bonds
\$159,965,000
- County of Los Angeles
Taxable Pension Obligation Bonds
\$600,000,000
- Dade County, Florida
Water and Sewer System Revenue Bonds
\$346,820,000
- Dallas-Fort Worth International Airport Facility Improvement Corporation/American Airlines, Inc.
Revenue Bonds
\$126,240,000
- Dormitory Authority of the State of New York
State University Educational Facilities Revenue Bonds
\$291,420,000
- Florida Housing Finance Agency
Homeowner Mortgage Revenue Bonds
\$94,650,000
- Massachusetts Health and Educational Facilities Authority
Newton-Wellesley Hospital
\$85,395,000
- New York State Urban Development Corporation
Correctional Capital Facilities Revenue Bonds
\$282,170,000
- The School District of Philadelphia, Pennsylvania
Various Purpose General Obligation Bonds
\$217,455,000
- State of Connecticut
Special Tax Obligation and Refunding Bonds
\$335,630,000
- State of Hawaii
General Obligation Bonds
\$268,000,000
- State of Washington
General Obligation Bonds
\$268,900,000
- Turnpike Authority of Kentucky
Economic Development Road Revenue and Refunding Bonds
\$237,890,000

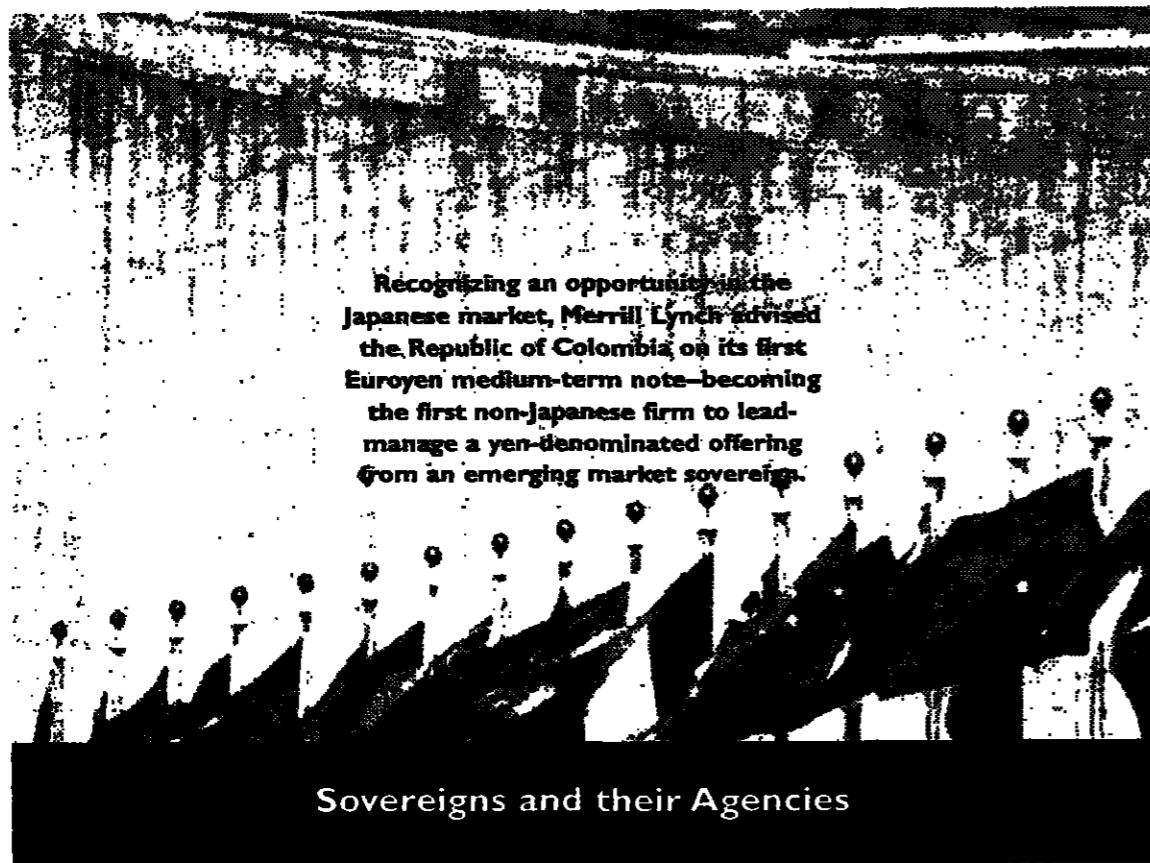
Deal of the Year

San Bernardino County, California
Certificates of Participation
\$363,265,000



Natural Resources

- AMAX Gold
Bank Loan Syndication
Senior Term Loan
\$250,000,000
- Bowater Incorporated
Security Tenders
Notes \$325,000,000
Preferred Stock
\$82,000,000
- Buckeye Cellulose Corporation
Common Stock \$152,000,000
Senior Subordinated Notes
\$150,000,000
Senior Notes Tender
\$65,000,000
- Commonwealth Aluminum Corporation
Common Stock
\$126,000,000
- CSS Industries, Inc.
acquired Cleo Inc. from Gibson Greetings, Inc.
\$128,500,000
- Deal of the Year
Dubai Aluminum Company Limited
Aluminum-linked Loan
\$250,000,000
- James River Corporation of Virginia
spin-off of Crown Vantage Inc.
\$825,000,000
- JCI Limited
demerged from Johannesburg Consolidated Investment Company, Limited as a publicly-traded company
\$1,100,000,000
- Deal of the Year
Jefferson Smurfit Group plc
Yankee Notes and Debentures
\$600,000,000
- Mail-Well, Inc.
Common Stock
\$70,000,000
- Mail-Well, Inc.
acquired Supergrex Inc.
\$61,000,000
- QUNO Corporation
has agreed to be acquired by Donohue Inc.
\$1,300,000,000
- QUNO Corporation
Senior Notes
\$150,000,000
- Sahaviriya Steel Industry Public Company Limited
Convertible Bonds
\$110,000,000
- Usinor Sacilor
acquired the 41.1% it did not already own of Uginie s.a.
\$760,000,000
- Usinor Sacilor
Ordinary Shares
\$153,000,000
- Vest-Alpine Stahl AG
Ordinary Shares
ATS3,191,000,000
- Veritas Capital Inc.
through Bar Technologies Inc. has agreed to acquire Bliss & Laughlin Industries Inc.
\$52,000,000
- Western Waste Industries
has agreed to merge with USA Waste Services, Inc.
\$536,500,000
- Westmoreland Coal Company
sold its remaining Hampton Division assets to Barco Resources Corp., Wind River Resources Corporation and Penn Virginia Coal Company
Value not disclosed
- Westvaco Corporation
sold its domestic Container Division to Weyerhaeuser Company
Value not disclosed



Recognizing an opportunity in the Japanese market, Merrill Lynch advised the Republic of Colombia on its first Euroyen medium-term note—becoming the first non-Japanese firm to lead-manage a yen-denominated offering from an emerging market sovereign.

Sovereigns and their Agencies

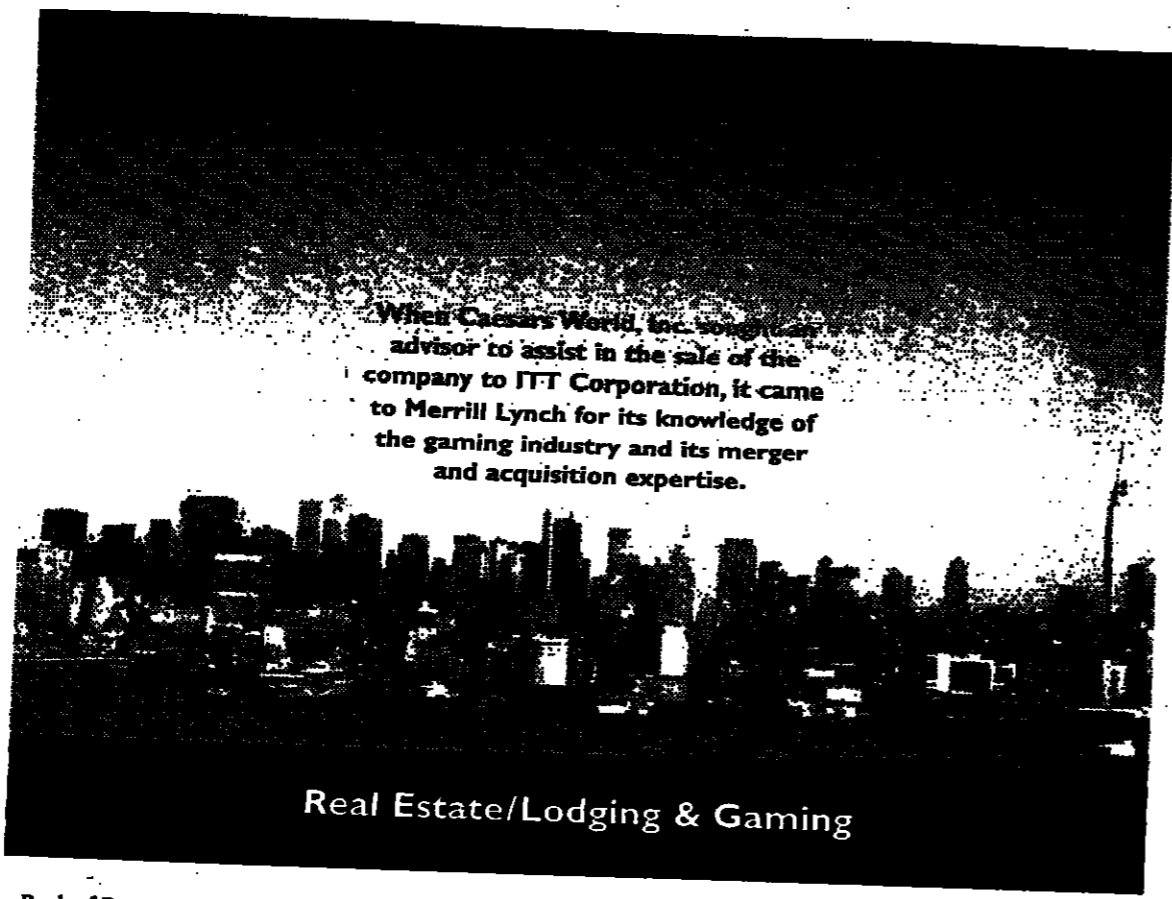
- Asian Finance & Investment Corporation (AFIC)
Euro Medium Term Notes
\$300,000,000
- The British Railways Board
has sold B R Telecommunications Ltd. to Racal Electronics Plc (advised H M Government of the United Kingdom)
\$393,000,000
- Federal National Mortgage Association (Fannie Mae)
10 year callable Global Bond
\$1,000,000,000
- Deal of the Year
Canada
5 year Global Bond joint lead managed with Deutsche Bank
\$1,500,000,000
- Canada
10 year Global Bond joint lead managed with Deutsche Bank
\$1,500,000,000
- Industrial Finance Corporation of Thailand (IFCT)
Euro Medium Term Notes
\$500,000,000
- Japan Finance Corporation for Municipal Enterprises
Yankee Bond
\$300,000,000
- Japan Highway
Eurodollar
\$500,000,000
- Petróleos del Perú S.A.
Pending Privatization
Value not disclosed
- The Republic of Colombia
Euroyen Bond
\$15,000,000,000
- Republic of Portugal
Global Bond
FF 6,000,000



Merrill Lynch was global coordinator for Portugal Telecom's \$982 million privatization, successfully initiating Portugal's privatization program.

Telecommunications, Media & Technology

- AT&T Universal Card Services Corp.
Credit Card Securitization
\$2,338,125,000
- Breakthrough Deal
Australis Media Limited
Discount Notes with Warrants
\$175,000,000
- Compania Anonima Nacional Telefono de Venezuela (CANTV)
Debt Restructuring
\$950,000,000
- Daily Mail & General Trust plc
Eurobonds
\$100,000,000
- Dow Jones & Company
in partnership with ITT Corporation agreed to acquire WNYC-TV from The City of New York
\$207,000,000
- DST Systems, Inc.
Common Stock
\$531,000,000
- General Motors Corporation
secondary sale by GM U.S. Hourly-Rate Employees Pension Plan of Class E Common Stock (Electronic Data Systems Corporation)
\$1,803,000,000
- Hollinger Inc.
corporate reorganization including the transfer of its 63.3% interest in The Telegraph plc to Hollinger International Inc.
\$550,000,000
- Hyundai Electronics Industries Co., Ltd.
acquired the 63% it did not already own of Maxxor Corporation
\$395,000,000
- Infinity Broadcasting Corporation
Common Stock
\$279,000,000
- International Business Machines Corporation
Tender offer for Preferred Shares
\$852,000,000
- International Maritime Satellite Organization (Inmarsat)
Formed ICO Global Communications with an initial equity capitalization
\$1,400,000,000
- K-III Communications Corporation
Common Stock
\$173,000,000
- Korea Mobile Telecommunications Corp.
Global Depository Shares
\$150,000,000
- NEXTEL Communications, Inc.
sold up to a 23.1% equity stake to Craig O. McCaw and his Family
\$1,100,000,000
- Deal of the Year
PT Telekomunikasi Indonesia (Persero)
Global coordinator for initial public offering
\$1,680,000,000
- Deal of the Year
Portugal Telecom, S.A.
Common Stock
ESC18,480,000,000
- The E.W. Scripps Company
has agreed to sell its cable business to Comcast Corporation
\$1,575,000,000
- SHL Systemhouse Inc.
was acquired by MCI Communications Corporation
\$1,223,000,000
- Sprint Telecommunications Venture
acquired personal communications services licenses in 29 markets
\$2,100,000,000
- TCI Communications, Inc.
\$750,000,000 Debentures
\$350,000,000 Notes
Tele-Communications International, Inc.
Class A Shares
\$320,000,000
- Deal of the Year
Telefónica de España, S.A.
Global coordinator for public offering
\$1,336,000,000
- Telstra Corporation Limited
Commercial Paper
Time Warner Capital I TOPS™
\$575,000,000
- Breakthrough Deal
Deal of the Year
Turner Broadcasting System, Inc.
has agreed to merge with Time Warner Inc.
\$10,900,000,000
- United States Cellular Corporation
LYON™
\$745,000,000
- US West Financial I TOPS™
\$600,000,000



When Caesars World, Inc. sought an advisor to assist in the sale of the company to ITT Corporation, it came to Merrill Lynch for its knowledge of the gaming industry and its merger and acquisition expertise.

Real Estate/Lodging & Gaming

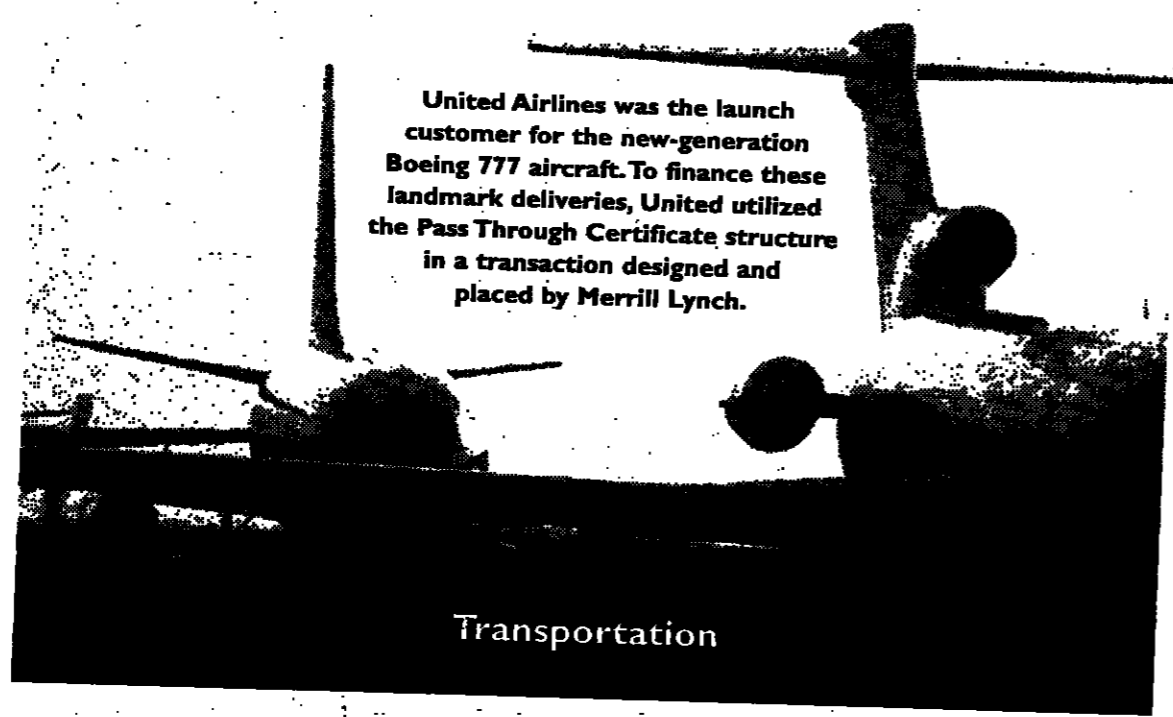
- Bank of Boston Corporation sold a portfolio of performing and non performing loans \$186,000,000
- Bescora Properties Corporation Common Stock \$154,000,000
- Bedford Property Investors, Inc. Convertible Preferred Stock \$50,000,000
- Bristol Hotel Company Common Stock \$100,000,000
- Caesars World, Inc. was acquired by ITT Corporation \$1,785,000,000
- Carr Realty Corporation has agreed to sell a 39% stake to Security Capital U.S. Realty \$250,000,000
- Chateau Properties, Inc. Senior Notes \$75,000,000
- Colony Investors II, L.P. Private Equity Fund \$625,000,000
- Crescent Real Estate Equities, Inc. Common Stock \$146,000,000
- Duke Realty Investments, Inc. Notes \$150,000,000
Common Stock \$102,000,000
- Equity Residential Properties Trust Cumulative Redeemable Preferred Shares \$275,000,000
Notes \$125,000,000
- Excel Realty Trust, Inc. Common Stock \$40,000,000
- Franchise Finance Corporation of America Senior Notes \$200,000,000
- HFS Incorporated acquired Century 21 Real Estate Corporation from Metropolitan Life Insurance Company \$200,000,000
- Highwoods Properties, Inc. acquired Forsyth Properties Inc. \$168,000,000
Common Stock \$235,000,000
- Irvine Apartment Communities Common Stock \$89,000,000
- JP Realty, Inc. Common Stock \$56,000,000
- Kimco Realty Corporation Common Stock \$74,000,000
Cumulative Redeemable Preferred Shares \$50,000,000
- New Flax Realty Trust Senior Notes \$100,000,000
Common Stock \$86,000,000
- Post Properties, Inc. Common Stock \$118,000,000
- Realty Income Corporation Common Stock \$50,000,000
- Reckson Associates Realty Corp. Common Stock \$171,000,000
- Shurgard Storage Centers Common Stock \$113,000,000
- Simon Property Group Common Stock \$151,000,000
- Starwood Lodging Trust acquired a 70% stake in Hotel Investors Trust \$300,000,000
Paired Shares \$271,000,000
- Storage Trust Realty Common Stock \$58,000,000
- The Price REIT, Inc. Senior Notes \$100,000,000
- TriNet Corporate Realty Trust, Inc. Common Stock \$129,000,000
- United Dominion Realty Trust Common Stock \$65,000,000
Cumulative Redeemable Preferred Stock \$100,000,000
- Vornado Realty Trust acquired a 27.1% stake in Alexander's Inc. from Citibank, N.A. \$55,000,000
Common Stock \$85,000,000
- Washington REIT Common Stock \$52,000,000
- Wellsford Residential Property Trust Senior Notes \$125,000,000
Preferred Stock \$50,000,000



When Broadway Stores sought an advisor to assist in the sale of the company to Federated Department Stores, Inc., it came to Merrill Lynch for its knowledge of the retail industry and its merger and acquisition expertise.

Retail

- Authentic Fitness Common Stock \$54,000,000
- Boston Chicken, Inc. LYONS™ \$828,000,000
Common Stock \$357,000,000
- Broadway Stores, Inc. was acquired by Federated Department Stores, Inc. \$1,619,000,000
- A.D. Clark, Inc. was acquired by American Stores Company \$35,000,000
- Companhia Brasileira de Distribuicao Grupo Pao de Acucar Global Depository Shares \$112,000,000
- Eckerd Corporation Common Stock \$252,000,000
Common Stock \$199,000,000
- Intelligent Electronics, Inc. acquired the 69.4% it did not already own of The Future Now, Inc. \$85,000,000
- Istituto per la Ricostruzione Industriale S.p.A. (IRI) has agreed to sell SME S.p.A. to a consortium led by Edizione Holding S.p.A. (Benetton), Movenpick AG, La Leonardo Finanziaria s.r.l. (Luxottica) and CREDIOP S.p.A. (co-advisor) \$1,400,000,000
- Kenneth Cole Productions, Inc. Class A Shares \$50,000,000
- Lowes Companies Senior Notes \$100,000,000
- Luxottica Group S.p.A. sold its Women's Specialty Retailing Group to La Leonardo Finanziaria s.r.l. Value not disclosed
- National Convenience Stores Incorporated was acquired by Diamond Shamrock, Inc. \$260,000,000
- Nine West Group Inc. acquired the Footwear Business of U.S. Shoe Corporation \$600,000,000
Office Depot Common Stock \$521,000,000
- Pathmark Stores, Inc. sold the assets of its 30 free-standing drug stores to Rite Aid Corporation \$63,600,000
- J.C. Penney Company, Inc. through its wholly owned subsidiary Thrift Drug, Inc. acquired Kerr Drug Stores, Inc. \$81,000,000
- Sears, Roebuck and Co. Retail Credit Card Securitization \$523,000,000
- The Warnaco Group, Inc. Class A Shares \$254,000,000



United Airlines was the launch customer for the new-generation Boeing 777 aircraft. To finance these landmark deliveries, United utilized the Pass Through Certificate structure in a transaction designed and placed by Merrill Lynch.

Transportation

- Alaska Air Group, Inc. Convertible Senior Debentures \$132,000,000
- Allegheny Corporation advised on its investment in Burlington Northern/Santa Fe Corporation Common Stock \$254,000,000
- AMR Corporation refinancing of special purpose facilities at Dallas-Fort Worth and Nashville airports \$195,000,000
- Atlas Air, Inc. Common Stock \$74,000,000
- Atlas Air, Inc. Pass Through Certificates \$100,000,000
- Commonwealth Government of Australia advised on privatization of Qantas Airways, Ltd. \$1,100,000,000
- Continental Airlines Finance Trust Convertible TOPS™ \$250,000,000
- Continental Airlines, Inc. advised on repurchase of 6,217,635 Series A and B Warrants from Air Canada \$55,000,000
- Federal Express Corporation Pass Through Certificates \$123,000,000
- HighwayMaster Communications, Inc. Common Stock \$79,000,000
- Iberia, Líneas Aéreas de España valuation of Latin American Holdings, Aerolíneas Argentinas, VIASA and Ladeco
- J.B. Hunt Transport Services, Inc. Medium Term Notes \$150,000,000
- LOT Polish Airlines Loan Syndication \$25,000,000
- Northwest Airlines, Inc. refinancing of special purpose facilities at Detroit and Los Angeles airports \$193,000,000
- Penske Truck Leasing Co., L.P. Medium Term Notes \$500,000,000
- Penske Truck Leasing Co. acquired Leaseway Transportation Corp. \$230,000,000
- Rollins Truck Leasing Corp. Collateral Trust Debentures \$150,000,000
- Ryder System Medium Term Notes \$300,000,000
- Société Nationale des Chemins de Fer Belges (SNCB) Euro Medium Term Notes \$500,000,000
- United Airlines Pass Through Certificates \$246,000,000

1995 stands as proof. Putting knowledge and intelligence to work requires superior execution and enormous financial strength.

But equally important, it demands a commitment to the client. This means teams of talented professionals working together to devise the best solutions and delivering the most objective advice.

One firm met this challenge, with skill and dedication to a set of guiding principles. We believe it made a difference for our clients and will continue to make a difference in years to come.

The difference is Merrill Lynch.



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 Several 1995 transactions:
 The "Deal of the Year" or "Breakthrough Deal" sometimes represent a trade won in at least one of the following publications in the case of "Deal of the Year":
 Infrastructure Finance, Institutional Investor, International Financing Review, and in the case of "Breakthrough Deal": Investment Dealers Digest.
 Approved for publication in the UK by Merrill Lynch International Limited, regulated by the Securities and Futures Authority 1 member.

COMPANY NEWS: UK

At least 10% of shareholders ready to vote against Premier deal
Farnell faces potential revolt

By William Lewis and Christopher Price

Owners of at least 10 per cent of the shares in Farnell Electronics are planning to vote against a proposed £1.85bn (£2.94bn) takeover unless the company and its advisers can dissuade them ahead of an extraordinary meeting next month.

The potential revolt threatens Farnell's plans to create the world's third largest electronic component distributor through the acquisition of Premier Industrial Corporation. To go through the deal needs the support of 75 per cent of the shares voted at the extraordinary meeting. If 40 per cent of Farnell's shares are voted at the meeting, in line with other company meetings, then the proposal will fail if more than 10 per cent of the votes are against.

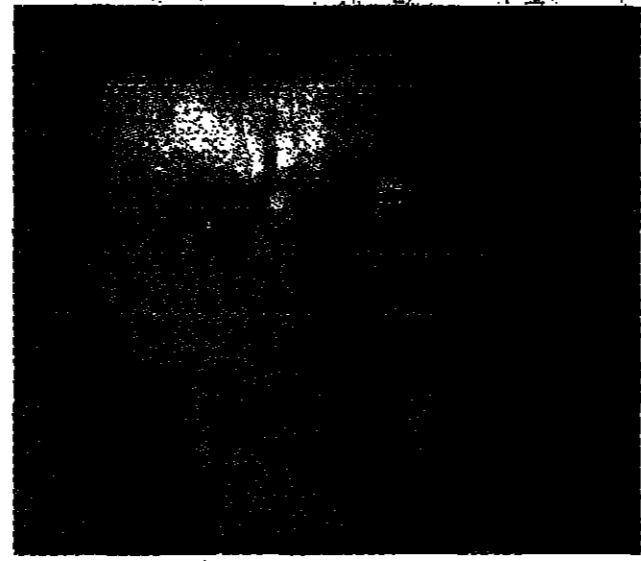
"We are highly concerned about the deal," one large institutional shareholder said yesterday. "We have asked the company to provide more information and have told

them that as things stand we are minded to vote against the takeover."

None of the critical institutional shareholders said they were willing to be named. Mr Howard Poulson, Farnell chief executive, admitted the "shock effect" of the deal had left many shareholders nervous. But he said: "When we have been to see fund managers, sometimes for the second time, they have seen the compelling industrial logic of this deal. The mood has definitely shifted in recent days."

As evidence to this, he pointed to the rise in the group's shares, which had recovered 20p - to 637p - of their 61p loss on the day of the announcement.

Farnell announced its takeover last Wednesday. It is proposing to buy a company valued at \$2bn on the New York market, against its own capitalisation of \$950m, while the £1.85bn price tag is at a 40 per cent premium to Premier's price. Farnell is proposing a mixture of debt, cash, shares and a rights issue to pay for



Howard Poulson: claims mood has shifted in recent days.

the deal. Some shareholders have raised concerns over the effect on earnings, seeing dilution until the end of the century. Farnell's advisers believe the

deal will be earnings dilutive in the first year and neutral by year two. There are also worries about the Farnell management's ability to run such a large business.

Profits warnings increase in disturbing trend

By Philip Cooper

Two more companies, QS Holdings, the retailer, and Jones Group, the shipping and engineering company, yesterday warned of worse-than-expected figures, adding to what has been a disturbing trend in the UK results season so far.

The peak time for the reporting of full-year figures is in March and April and companies have been making statements with the aim of persuading the market to reduce over-optimistic profits forecasts.

The retailing sector has been responsible for a significant number of warnings, with groups such as W. H. Smith, J. Sainsbury and Asda's Reed disappointing investors. But Mr Murray Wilson, UK strategist at NatWest Securities, points out that some retailers, such as Next and Dixons, have reported good figures, indicating that the risk in the sector is highly company-specific.

"Although consumer spending has picked up, there are still pretty fussy about where they spend their money," he says. QS Holdings, which sells discount clothing, made a first-half profits warning last July. It said that trading in the second half had been at break-even level. While sales had picked up in December, QS said this was not enough to offset disappointing autumn trading. The company does not plan a final dividend.

While Jones Group is Dublin-listed, its problems were partly caused by the weak UK construction market, which affected its radiator division. A slowing economy, both in the UK and continental Europe, is one of the main reasons why companies seem to be having problems in maintaining the previously rapid rate of profits growth. Problems in the German housing market, for example, prompted Redland and RMC, the building materials groups, to issue warnings this month. Mr George Hodgson, UK equity strategist at SBC Warburg, says: "Whereas last year many warnings were related to margins, there's a whiff of poor volume growth about the latest statements."

One consequence of a slowing economy for some companies has been the build-up of stocks. Management may well respond by reducing production to unwind the problem, with inevitable knock-on effects on suppliers.

In spite of these problems, profits across the UK corporate sector are still growing. However, companies have dampened down over-optimistic forecasts. Mr Mark Brown, head of strategy and economics at ABN-Amro Hoare Govett, said: "Six to 12 months ago, expectations for profits growth were unrealistic and since last summer there has been a gradual adjustment. Our bottom-up forecasts for 1996 non-financial earnings growth, based on the predictions of individual company analysts, dropped from 18 per cent in the summer to 12 per cent at the start of the year and 9.5 per cent now."

Gehe may bid for Lloyds Chemists despite rival offer from UniChem

By Patrick Harverson

Gehe of Germany yesterday confirmed it may launch a bid for Lloyds Chemists, the UK drugs retailer which has agreed to a rival £250m offer from UniChem, Britain's leading pharmaceutical wholesaler.

Gehe, the largest drugs wholesaler in Europe, said it had requested information

from Lloyds and was "considering whether or not it wishes to make an offer". The statement followed market speculation that the German group was preparing to do battle with UniChem for Lloyds.

If Gehe does make an offer it would represent the group's second UK bid in a year. In May, Gehe paid £400m for AAH, another UK drugs wholesaler. At the time,

Mr Dieter Kämmerer, chairman of Gehe's management board, said the AAH purchase would be the last big acquisition for some time.

UniChem's agreed offer for Lloyds values its ordinary shares at 40p each, and analysts said yesterday they believed any hostile counter bid would have to be worth at least 45p to stand a chance of winning.

Tomkins completes purchase of Gates Rubber for \$1.4bn

By Patrick Harverson

Tomkins clinched its first big acquisition in three years yesterday when the UK industrial conglomerate agreed to acquire Gates Rubber, the privately-owned US automotive and industrial components group, in a deal worth \$1.4bn.

The UK group is paying \$1.16bn for Gates, to be financed by two issues of convertible stock which will leave the Gates family as Tomkins' largest single shareholder

with a 15.7 per cent stake. Additionally, Tomkins will use existing cash reserves to pay off Gates' debts of \$240m, making it the largest acquisition by Tomkins since it paid \$935m for Ranks Hovis McDougall, the foods group, in late 1992.

Even after paying Gates' debts Tomkins will still have cash resources of at least \$140m, but yesterday Mr Greg Hutchings, Tomkins' chairman, ruled out any other immediate deals. He said the

group's policy was always to spend two to three years running a new acquisition before considering further purchases.

Mr Hutchings said the Gates' acquisition - which will be earnings enhancing - presented significant opportunities for the enlarged group.

Gates is the world's largest manufacturer of power transmission belts and industrial hoses, and in the nine months to September 30 1995 the group made pre-tax profits of \$85.5m on sales of \$1.18bn.

Vodafone plans to double its stake in SFR to 20%

By Paul Abrahams in Paris

Vodafone, the UK mobile telephony group, plans to double its stake in Société Française du Radiotéléphone to 20 per cent.

Analysts said the purchase would cost Vodafone between \$300m and \$350m (£630,000). SFR, majority owned by Générale des Eaux, the French conglomerate, reported losses of FF662m in 1995.

Mr Philippe Glotin, SFR president, said he expected the UK

company to exercise its option to buy an additional 10 per cent in the next few months. The option expires in June.

Vodafone's interest in SFR, which holds one of two French GSM licences, has been heightened by the rapid development of the French mobile telephone market. During the past six months the number of French mobile phone subscribers has risen 46 per cent.

The move fits with Vodafone's strategy to take stakes in European mobile telephony

groups. It already owns 16 per cent of E-Plus, the German group co-owned by Thyssen and Veba, and 20 per cent of a Swedish licence.

Other SFR shareholders include Southwestern Bell of the US, and Alcatel Alsthom of France. Mr Glotin said Alcatel Alsthom had given no indication it wanted sell its stake, although Mr Serge Tchuruk, Alcatel Alsthom chairman, has announced a FF10bn disposals programme. Bouygues in the red - Page 16

Angry shareholders press QSP chairman to resign

By Christopher Price

Angry institutional shareholders of Quality Software Products, the accountancy software group, are to press for the resignation of the chairman, and other senior management changes, amid growing dissent over Monday's profits warning.

QSP shares, which fell 218p to 49p on Monday, tumbled a further 155p yesterday to 38p, a 50 per cent drop over the two days.

Shareholders are particularly upset at the timing of the warning, coming just 10 weeks after the company had a £15m (£20m) rights issue at 635p a share.

The shares have also now fallen below the 38p at which they were first placed in the market in March 1993.

Last night, Mr Alan Mordant, chairman, said he would consider stepping aside. "If the shareholders, I would have to do it."

Acquisitions help Wyko recovery to continue

Wyko Group, the industrial distribution and precision engineering company, confirmed its revived fortunes by nearly doubling interim pre-tax profits with the help of acquisitions, writes Geoff Dyer.

The West Midlands-based group, which made losses in 1993 and 1994, improved pre-tax profits in the six months to October 31 from £740,000 to £2,030m. The shares rose 8p to 95p. Analysts, surprised at the speed with which the group's new management team had

restored margins, up from 5.3 per cent to 7.2 per cent in the period, increased forecasts for full-year profits from £3.6m to \$4.5m.

Industrial distribution, the largest division, which supplies components to manufacturing companies, doubled operating profits to £2.3m (£1.14m).

Oswald Seals, acquired in August 1994, and Olympic Chevin, which was bought in March 1995 after a £7.85m rights issue, added £970,000 to profits.

Carlton pays £5m for UK cable tv channel

By Raymond Snoddy

Carlton Communications, the television and media services group, has become the first independent television company to own a UK cable channel. It bought the cable rights to SelectTV, which delivers programmes by satellite to more than 900,000 homes.

Mr Michael Green, chairman of Carlton, who is increasingly enthusiastic about the progress of cable in the UK, is paying £5.2m for the channel.

Because owning a satellite-delivered cable channel is in breach of broadcasting rules, Carlton will deposit the SelectTV shareholding in a "dead-locked" company, in which Carlton holds 50 per cent and a merchant bank holds 50 per cent.

This means that no-one is deemed legally to have control and so gets round the restriction.

The Carlton deal is part of a £46m dismemberment of SelectTV.

Thames Television Holdings, an indirect subsidiary of Pearson, which owns the Financial Times, is paying 29p a share for SelectTV, valuing the company at about £48m.

Pearson Television said that it would acquire the programme production and distribution business of SelectTV for about £3m net of the cost of the overall transaction.

The main asset being sold by SelectTV, which yesterday announced a pre-tax loss for the six months to the end of September of £3.03m (£517,000 profit), was a 15 per cent stake in Meridian, the ITV franchise for south-east England.

The stake will go to MAI, the broadcasting and financial services company which controls Meridian, for about £27m cash. As a result, MAI's stake in Meridian will increase from 61 per cent to 76 per cent.

MAI also announced it was selling part of its stake in Village Roadshow, an Australian entertainment business, for £23m.

RESULTS

Table with columns: Company, Shares, Price, Dividend, etc. Includes entries for Advertisers, Britek, Games Workshop, IAP, Key's Food, Larkspur, Property Trust, Ramsden's (Harry), SelectTV, Wyko, and Investment Trusts.

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. *After exceptional charge. †On increased capital. ‡AIM stock. §USM stock. ¶Pro forma.

Select Capital Advisors proudly announces the successful completion of Over \$75,000,000 of Debt and Equity Placements for 31 Client Corporations Funded During 1995. We specialize in providing emerging companies with creative financing solutions.

National Australia Bank Limited US\$100,000,000 Floating rate notes due 1997. Notice is hereby given that the rate of interest relating to the above issue has been fixed at 5.625 per cent for the period 31 January 1996 to 31 July 1996.

NOTICE TO THE HOLDERS OF US\$1,500,000,000 UNITED MEXICAN STATES LIBOR/CETES NOTES DUE 11/27/96. The Applicable Case Rate for the period of January 25, 1996 to February 22, 1996 is 37.25% annual.

The Kingdom of Belgium US\$400,000,000 Floating rate notes due 1996. In accordance with the provisions of the notes, notice is hereby given that for the interest period from 31 January 1996 to 31 July 1996 the rate of interest on the notes will be 5.25% per annum.

FT CITYLINE Fax and Telephone services from A-Z. Call 0171 873 4276 or 444 771 873 4276 (International) for details.

Republic of Italy ECU1,000,000,000 Floating rate notes due 2005. Notice is hereby given that the rate of interest on the notes will be 4.67188% per annum from 31 January 1996 to 30 April 1996.

JPMorgan logo and branding.

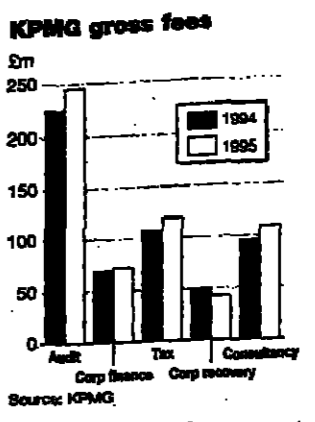
U.S. offices located in Miami, Dallas and New York. International branch offices located in the U.K., Germany, the Netherlands, Canada, and the Republic of Panama.

CHEMICAL FEDERAL BANK, NEW YORK FISCAL PAYING AGENT.

FT logo and branding.

LEX COMMENT KPMG

KPMG deserves credit for publishing the accountancy profession's first proper report and accounts. Of course, the move is not entirely voluntary: it is part of the firm's plans to turn its audit arm into a limited liability company, to protect the personal assets of its partners. But KPMG can argue - with some justification - that greater openness should help its business. Clients will know that it is not making obscene profits; potential recruits will have a better idea of the rewards on offer.



In the short term, however, these - unaudited - accounts reveal that times are not so good for the firm. While revenues rose 7 per cent and KPMG has a leading 35 per cent market share in its core auditing business, profits fell 38 per cent last year. Margins have been whittled down to 3 per cent, cash flow is highly seasonal and, as in most 'people businesses', there is comparatively little in the way of asset backing. Nonetheless, partners' average pay rose by a tenth to £195,000 in 1995, with a rather larger increase for Mr Colin Sharman, senior partner. Including pension contributions and profit share, the average package amounted to more than £200,000. That is broadly comparable with the remuneration of directors in companies with a similar turnover, but few companies have 665 directors. To be fair, the risks of unlimited liability deserve a higher return. But that suggests that once the audit arm has been incorporated the audit partners should think about reducing their rewards to reflect the reduced risk.

DIGEST Greenalls replaces Forte in FT-SE 100

Greenalls Group, the pubs and hotels company, is replacing Forte in the FT-SE 100 index of the UK's leading companies following Granada's victory in its £3.9bn takeover battle for Forte. It was announced last night.

Vodafone Group, the mobile communications company, will take Forte's place in the FT Ordinary, or 30-share index. Forte has been a constituent of the FT 30, the oldest continuous index covering UK equities, since November 1983.

Greenalls Group is being replaced by Henlys Group in the FT-SE Mid 250 index, and Henlys also becomes a constituent of the FT-SE Actuaries Lower Yield Index. The changes took effect after the close of stock market business yesterday. Martin Dickson

Celltech chief has £6.2m options



Mr Peter Fellner, left, chief executive of Celltech, the biotechnology company, accumulated share options by September 1995 that would give a net profit of £6.2m (£9.54m) if exercised at yesterday's closing prices, according to the company's annual report, published yesterday. In December, he exercised 605,000 of his 1.25m options, making a net profit of £1.9m. Mr Fellner heads one of the UK's fastest-growing biotechnology companies, which employs

500 people and whose share price rose from 207p to 434p in the year to September 30. Shares closed yesterday at 683p. He was paid a salary of £363,300 in the year to September 1995 (£341,100). The company also paid pension contributions worth £110,394 (£108,086). Celltech made a pre-tax loss of \$5.4m in 1995, compared with a \$6.5m in 1994. Daniel Green

IBM software alliance for JBA

News of an alliance with IBM lifted shares in JBA Holdings, the Birmingham-based software group, by 26p to 395p yesterday.

The two companies will work on an advanced method of developing business computer programmes in which software building blocks can be linked together.

JBA is a specialist in the technology, known as object orientation. The project will be based in Boeblingen, Germany. Mr Steve Carter, who will lead the project from IBM's Rochester facility in the US said: "This is one of IBM's most important development projects within the software area. Alan Cane

Ramsden's rides hot summer

Harry Ramsden's, the fish and chip shop chain which on Monday announced closer links with Compass, the contract caterer, yesterday unveiled higher full year profits despite the hot summer and soaring potato prices.

The shares firming 8p to 319p after the Guiseley-based company announced its eighth successive pre-tax profits rise - up 21 per cent to \$1.18m in the year to October 2 on turnover ahead 16 per cent at £4.33m. The group has expanded its chain to 16 restaurants. Year end net debt totalled £1.87m for gearing of 27 per cent (19 per cent).

Mass Transit Railway Corporation (A corporation established by the Mass Transit Railway Corporation Ordinance of Hong Kong) HK\$3,000,000,000 (or an equivalent amount in U.S. dollars) Medium Term Note Programme HK\$160,000,000 Collared Floating Rate Notes due 1996. Notice is hereby given that the Hibor applicable to the subject notes for the period from January 25, 1996 to April 25, 1996 is fixed at 3.75 per cent p.a. The inclusive rate is 3.8125 per cent p.a. Coupon amount payable on April 25, 1996 per HK\$300,000 note is HK\$7,345.72, with principal repayment of HK\$300,000 per certificate. Morgan Guaranty Trust Company of New York Hong Kong As HK Reference Agent JPMorgan

Citicorp Banking Corporation (Incorporated in the State of Delaware) Unconditionally guaranteed on a subordinated basis by CITICORP US\$250,000,000 GUARANTEED FLOATING RATE SUBORDINATED CAPITAL NOTES DUE JANUARY 1997. Notice is hereby given that the rate of interest on the notes will be 5.4525% and that the interest payable on the relevant Interest Payment Date February 16, 1996 equal Coupon No. 45 in respect of US\$10,000,000 nominal of the Notes will be US\$25,000. January 31, 1996, London By Citicorp, N.A. (Incorporated in the U.S.A.) CITIBANK

COMMODITIES AND AGRICULTURE

Slide in lead stocks continues

By Kenneth Gooding, Mining Correspondent. Stocks of lead in London Metal Exchange registered a further decline...

slightly weaker after overnight news that a tentative deal had been reached for new labour contracts at three Asarco smelters in the US...

Aboriginal claim over bauxite lease rejected

By Nikki Tait in Sydney. An Australian federal court judge has rejected a claim by the Wik people for native title rights over a large tract of land in north Queensland.

had made a "promise or engagement" to preserve native title indefinitely over lands to which it granted pastoral rights.

Copper leads LME price rally

COPPER prices held above the \$2,500 level yesterday and the firm trend filtered through to other London Metal Exchange contracts.

Chilean flower may join pest war

Alison Maitland reports on a plant that could revolutionise crop protection. Attempts to fight devastating pest damage to crops around the world could be revolutionised thanks to a yellow-flowered plant...

Question marks hang over Oman-India gas pipeline

By Mark Nicholson in New Delhi. A senior Omani official admitted this week that there were "question marks" over the Gulf sultanate's proposed gas pipeline project to India.

Early start for Lihir gold mine

By Kenneth Gooding. Lihir Gold, whose gold mine in Papua New Guinea, is destined to become one of the biggest in the world, will spend an extra US\$8.7m to start up six months earlier than was planned...



Calceolaria Andina is a very selective killer

The plant has been found to contain two naturally occurring insecticides that kill pests such as whiteflies and mites that are resistant to many current commercial sprays.

The compounds in the Chilean plant kill a range of highly damaging insects including a virulent strain of the tobacco whitefly, Bemisia tabaci. This strain multiplies five times faster than others, can feed off 600 different crop and weed species...

COMMODITIES PRICES

BASE METALS

Table with columns for metal type (Aluminum, Zinc, Lead, Tin), price change, high, low, and open prices.

Precious Metals continued

Table with columns for metal type (Gold, Silver, Platinum, Palladium), price change, high, low, and open prices.

GRAINS AND OIL SEEDS

Table with columns for grain type (Wheat, Corn, Soybeans, Barley), price change, high, low, and open prices.

SOFTS

Table with columns for soft commodity type (Cocoa, Coffee, Sugar), price change, high, low, and open prices.

MEAT AND LIVESTOCK

Table with columns for livestock type (Cattle, Hogs, Pigs, Sheep), price change, high, low, and open prices.

LONDON TRADED OPTIONS

Table with columns for option type (Aluminum, Copper, Gold, Silver), price change, high, low, and open prices.

ENERGY

Table with columns for energy type (Crude Oil, Heating Oil, Gas), price change, high, low, and open prices.

PRECIOUS METALS

Table with columns for precious metal type (Gold, Silver, Platinum, Palladium), price change, high, low, and open prices.

FUTURES DATA

Table with columns for futures type (Wheat, Corn, Soybeans, Barley), price change, high, low, and open prices.

INDICES

Table with columns for index type (DAX, Nikkei, FTSE, Hang Seng), price change, high, low, and open prices.

JOTTER PAD advertisement with a grid and promotional text.

CROSSWORD

Crossword puzzle grid and clues.

Vertical advertisement on the left edge of the page, partially cut off.

INTERNATIONAL CAPITAL MARKETS

Losses reversed on interest rate optimism

By Martin Brice in London and Lisa Branstan in New York

Interest rate cuts, both real and anticipated and on both sides of the Atlantic, restored some poise to government bonds yesterday after the recent sell-off.

Italian bonds were the star performers in Europe, helped by hopes of a political settlement, and the Swedish central bank surprised the markets with an interest rate cut.

In the US, weak retail sales figures, deflated consumer confidence and hopes that the Federal Reserve might lower interest rates today also helped Treasury reverse Monday's losses.

Near midday, the benchmark 30-year Treasury was 1/8 higher at 11 1/8 to yield 6.030 per cent, while at the short end of the maturity spectrum the two-year note was up 1/4 at 99 1/2, yielding 5.000 per cent.

Treasury prices jumped in morning trading after the Commerce Department reported retail sales up 0.3 per cent in December, making 1995 the

worst year for retailers since 1981. Analysts had expected an increase closer to 0.6 per cent. Another sign that the economy was slowing came from the Conference Board, which said its index of consumer confidence dropped 13 points to 87 in January, its lowest level in more than 18 months.

Mr Edgar Fiedler, economic counsellor at the Conference Board, said bad weather, the

GOVERNMENT BONDS

government shut down and a recent wave of lay-off announcements contributed to consumer pessimism.

"It remains to be seen, however, if these factors resulted in a temporary drop in confidence that will rebound, or if the decline is a signal from consumers that slower growth is on the horizon," he said.

The market took the latter interpretation, which is good news for investors worried that inflation could erode the value of their holdings. Also, the

signs of sluggish growth could spur the Fed to lower interest rates today at the conclusion of the two-day Open Market Committee meeting.

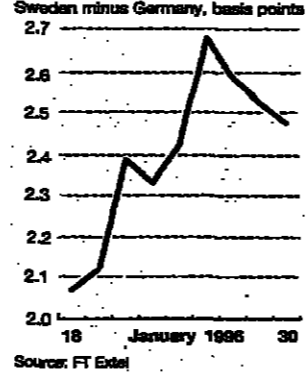
German government bonds were lifted by hopes of a cut in the repo rate today, with money market rates suggesting a reduction of up to 13 basis points. The yield on two-year paper fell by 7 basis points and that on 10-year paper by 4 points, with the spread between the two maturities increasing to 223 points.

On Life, the March 10-year bond future closed at 100.50, up 0.44. The yield spread of 10-year bonds over US Treasuries widened from 14 to 17 basis points.

French government bonds were lifted by bond strength and hopes of an interest rate cut that was highlighted by a 1 per cent reduction in the Livret A, a retail saving rate.

Yields on longer-dated bonds fell by 5 basis points, while the short end saw yields fall by 15 basis points to 4.4 per cent and

10-yr bond yield spread



Source: FT Data

March Pibor rose by 0.20 to 95.43. On Matif the March 10-year future settled at 122.80, up 0.46, while the spread over 10-year bonds tightened in 4 basis points to 49.

Mr Iain Lindsay, senior bond analyst at Credit Lyonnais in Paris, said the Bank of France might cut interest rates this week, possibly on Thursday.

Italian government bonds outperformed bonds on hopes

of a solution to the domestic political problem, despite a lack of firm news. The yield spread over 10-year bonds tightened by 13 basis points to 440 points.

UK government bonds rose on the back of today's auction of £3bn of the 8 per cent gilt due 2000. Mr Simon Briscoe, economist at Nikko, said he expected cover to be between 1 1/2 and 2 times, with a tail of 2 or 3 basis points.

On Life the March long gilt future closed at 110 1/2, up 1/4, while the spread over 10-year bonds was static at 189 basis points.

The Riksbank, the Swedish central bank, surprised traders with a 21 basis point cut in the repo rate to 8.45 per cent and yields fell along the curve.

Traders said market rates expected further cuts of between 20 and 25 basis points within a month. The yield spread over Germany on Swedish 10-year bonds tightened by 3 basis points to 248 points.

Dealers kept busy by three jumbo offerings

By Conner Middelmann

Three jumbo offerings kept primary eurobond dealers busy yesterday.

After a week of pre-marketing, DePfa, Germany's largest public sector lender, saw good international demand for its

INTERNATIONAL BONDS

seven-year Pfandbriefe - bonds backed by loans to the public sector. Almost too good, according to Mr Frank Rühl, DePfa treasurer, who was disappointed that only 10 to 15 per cent of the deal went to German investors. Some 35 per cent was placed with US

accounts, 80 per cent stayed in Europe and 25 per cent went to Asia, he said.

However, "while the domestic market remains very important for us, the main objective of this issue was to get some international momentum going, and we are happy that has been achieved to such a high degree," he said.

The bonds will be priced today at a spread of 18 basis points over German government debt. Commerzbank and Morgan Stanley are joint book-runners, with UBS joint lead. Mexico saw strong demand for its first straight dollar bonds in two years and achieved its aim of reopening the US institutional market after last year's peso crisis.

NEW INTERNATIONAL BOND ISSUES

Table with columns: Borrower, Amount, Coupon, Price, Maturity, Fees, Spread, Book-runner. Includes entries for US Dollars (Landmark, Banco de Boston), D-Mark (Dpfa Bank, Cadbury Beverages), Australian Dollars (NSW Treasury), and Japanese Yen (Mitsubishi).

Final terms, non-callable unless stated. Yield spread (over Govt bond) at launch supplied by lead manager. *Unlisted. %Wm equity warrants. †Floating-rate notes. ‡Fixed-rate coupon. R: fixed rate-offer price; fees shown at offer level. †: Acting with the Leasing Bank of Boston. ‡: Callable at 2/28, 2/28/5, 2/28/10, 2/28/15, 2/28/20, 2/28/25, 2/28/30, 2/28/35, 2/28/40, 2/28/45, 2/28/50, 2/28/55, 2/28/60, 2/28/65, 2/28/70, 2/28/75, 2/28/80, 2/28/85, 2/28/90, 2/28/95, 2/28/100.

with about 80 per cent of the deal placed with US investors. After successful, retail-targeted offerings in the D-Mark and yen sectors over the past year, "this issue completes the rehabilitation of Mexico in the international capital markets," said an official at one of the joint book-runners, J.P. Morgan and Merrill Lynch.

FT-ACTUARIES FIXED INTEREST INDICES

Table showing fixed interest indices for various maturities (1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years, 25-30 years, 30+ years) with columns for index value, change, and yield.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Table of benchmark government bond prices for Australia, Belgium, Canada, Denmark, France, Germany, Ireland, Italy, Japan, Netherlands, Spain, Sweden, UK, and US Treasury.

EURO BOND FUTURES (MIF) DEM250,000 100ths of 100%

Table of Euro bond futures prices for various maturities (1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years, 25-30 years, 30+ years).

ITALY GOVT. BOND (BTP) FUTURES (IFFE) Lira200m 100ths of 100%

Table of Italian government bond futures prices for various maturities (1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years, 25-30 years, 30+ years).

SPANISH GOVT. BOND (GPT) FUTURES (IFFE) Lira200m 100ths of 100%

Table of Spanish government bond futures prices for various maturities (1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years, 25-30 years, 30+ years).

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (IFFE) Lira200m 100ths of 100%

Table of notional Italian government bond futures prices for various maturities (1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years, 25-30 years, 30+ years).

NOTIONAL SPANISH GOVT. BOND (GPT) FUTURES (IFFE) Lira200m 100ths of 100%

Table of notional Spanish government bond futures prices for various maturities (1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years, 25-30 years, 30+ years).

NOTIONAL FRENCH GOVT. BOND (MATIF) FF100,000

Table of notional French government bond futures prices for various maturities (1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years, 25-30 years, 30+ years).

NOTIONAL FRENCH BOND FUTURES (MATIF) FF100,000

Table of notional French bond futures prices for various maturities (1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years, 25-30 years, 30+ years).

NOTIONAL GERMAN BOND FUTURES (LIEFF) DEM250,000 100ths of 100%

Table of notional German bond futures prices for various maturities (1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years, 25-30 years, 30+ years).

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LJFF) Y100m 100ths of 100%

Table of notional long term Japanese government bond futures prices for various maturities (1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years, 25-30 years, 30+ years).

US TREASURY BOND FUTURES (CBT) \$100,000 32nds of 100%

Table of US Treasury bond futures prices for various maturities (1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years, 25-30 years, 30+ years).

UK GILTS PRICES

Table of UK gilt prices for various maturities (1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years, 25-30 years, 30+ years).

Portuguese derivative contract well received

By Peter Wise in Lisbon and Antonia Sharpe in London

Bankers Trust, which on Monday launched the first derivative contract on a Portuguese stock market index, is planning a second offering soon because of the strong investor response.

The warrants, which Bankers Trust issued Monday, are denominated in dollars and based on the Portuguese Stock Index-20, which is made up of the 20 leading shares listed in Lisbon. The index was created last year as the basis for futures and options contracts on Portugal's still-unopened derivatives exchange.

The warrants, which entitle investors to any gain in the PSI-20 over the next 18 months, tapped the demand which has been building up ahead of the opening of the Oporto-based exchange.

With other banks believed to be working on similar offerings, the pressure is on the authorities to open Oporto so that business is not lost to London. The opening has been postponed several times over the past year because of technical problems and is now scheduled for April.

Mr Antonio Beck, a managing director at Bankers Trust in London, said the Luxembourg-listed warrants were sold mainly to Swiss and German institutions which believe Portugal will outperform this year after a disappointing 1995.

The exercise price of the warrants, which give the holders the right to buy one call option on the PSI-20 at a predetermined price, was fixed at \$4,259 (\$37.54), the level of the index on Monday. Yesterday the index was trading at 4,262, resulting in a small rise in the value of each warrant from \$3.73 to \$3.78.

Moody's puts a ceiling on Gulf sovereign ratings

By Roula Khalaf

For the cash-strapped Gulf states, financial information is a closely guarded secret and sovereign ratings have for long been considered as interference in a country's internal affairs.

So it is with some anxiety that the governments will greet the ratings assigned to them yesterday by Moody's. The US rating agency awarded Kuwait, Oman and Saudi Arabia investment grade ratings while Bahrain and Qatar were considered below investment grade. Kuwait won the highest rating and even Oman came before Saudi Arabia.

Kuwait received a Baa1 rating compared with Oman's Baa2 and Saudi Arabia's Baa3. The ratings are believed to be unsoftened, although Moody's was provided with some government information.

"The Gulf states are generally upset because the ratings were done without full access to information when the amount of information available about the Gulf is limited," said one Gulf banker yesterday. Moody's, however, said its ratings were always supported by adequate information.

The move is the result of increased competition among agencies to provide clients with ratings of banks in the Middle East. This exercise, however, first requires the establishment of an indicative rating for the country.

Technically, Moody's has assigned sovereign ceilings to financial instruments of investment grade in the countries. But agency officials said the rating would be the same for the debt of the country.

While Kuwait's rating is based on the country's strong current account position, which Moody's said mitigates the impact of persistent fiscal deficits, the agency considered

that further moves to constrain public expenditure in Saudi Arabia will be limited by the difficulty of imposing a measure of austerity on a population long accustomed to a generous social safety net.

In the case of Bahrain, Moody's said concern over stability may impede progress on essential fiscal reforms. It said Qatar's gas reserves, the third largest in the world, offer great potential for long-term foreign exchange inflows but projects in the gas sector may further reduce the country's foreign assets and raise its foreign currency-denominated debt.

Until last year, rating banks in the Middle East had been the exclusive domain of Capital Intelligence, a small Cyprus-based company.

Moody's has been seeking to expand its bank rating business and last year set up an office in Cyprus to focus on this, including in the Middle East. At the same time, non-based IBCA entered into joint ventures with the International Finance Corporation and the Arab Monetary Fund to invest in local ratings agencies in Tunisia, Egypt, Jordan and Lebanon to provide ratings for corporates and banks.

Faced with the onslaught of agencies to provide clients with ratings of banks in the region have tried to play them against each other. For example, according to bankers, when Moody's first approached Kuwait, it talked at the idea of a rating. It agreed to provide Moody's with some information, but invited IBCA and opened its books more generously. IBCA's A rating, released in December, was the first for a Gulf state and was two grades above Moody's. Given that Kuwait had asked for the rating and was paying for it, the rating could have been shelved had the government not liked the outcome.

FT-FIXED INTEREST INDICES

Table of fixed interest indices for various maturities (1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years, 25-30 years, 30+ years) with columns for index value, change, and yield.

FT/ISMA INTERNATIONAL BOND SERVICE

Table of international bond service offerings for various countries (Australia, Belgium, Canada, Denmark, France, Germany, Ireland, Italy, Japan, Netherlands, Spain, Sweden, UK, and US Treasury).

FT-GILT EDGED ACTIVITY INDICES

Table of gilt edged activity indices for various maturities (1-5 years, 5-10 years, 10-15 years, 15-20 years, 20-25 years, 25-30 years, 30+ years).

FT/ISMA INTERNATIONAL BOND SERVICE

Table of international bond service offerings for various countries (Australia, Belgium, Canada, Denmark, France, Germany, Ireland, Italy, Japan, Netherlands, Spain, Sweden, UK, and US Treasury).

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CURRENCIES AND MONEY

MARKETS REPORT

All eyes on the FOMC

By Gillian Tett, Economics Correspondent

The attention of the markets was split yesterday between the US and Europe.

In the US dealers watched anxiously to see whether the Federal Open Markets Committee would cut US interest rates or not.

In Europe, however, the markets were again convulsed by the future for European growth and monetary union.

The dollar drifted upwards during the day against most currencies, amid a background of speculation about the US economy.

During the day figures were released showing that US retail sales were weaker than expected

in December, with a monthly rise of only 0.3 per cent. A recent consumer confidence survey was also disappointing, showing worsening sentiment.

This disappointing data led some observers to conclude that a US rate cut was now more likely.

But with the markets now watching the FOMC meeting, most traders struggled for the data.

Consequently, the dollar closed at DM1.4899 in London, compared with DM1.4859 at the previous day's finish.

Meanwhile, it also rose slightly against sterling, ending at £1.5043.

At the same time, the pound fell against the dollar, ending at \$1.5043.

Against the yen, the pound fell to ¥160.25, down from ¥160.50.

ing at \$1.5043, compared with \$1.5079 at the previous day.

In Europe, the markets were convulsed by fresh debates about the prospects for growth in the continent.

fuelled by the announcement that Germany and France had both agreed on measures to stimulate their economies.

In Bonn, the German government announced a 50 point plan aimed at spurring job creation by stimulating investment and growth.

The package included cuts in taxes and non-wage labour costs in order to halve unemployment by 2000 from the current rate of near 10 per cent.

Meanwhile in Paris a host of French banks reduced their lending rates slightly.

This was triggered by a fall in the popular savings rate to 3.50 per cent from 4.50 per cent.

growth since the middle of 1995, Arthur said.

"We (both) believe that this slowdown is temporary and that a rebound in growth must be expected from the end of the first half of this year," he said.

Nevertheless, this announcement was met with a degree of cynicism from the markets, and it had little impact on actual exchange rates.

"The list of German proposals is still rather vague and will do little for jobs," said Holger Fahringer at UBS in Frankfurt.

"It is a package of supply-side measures which could be quite positive for companies but is unlikely to feed through much into the jobs market," he added.

Consequently, the D-Mark moved in a fairly narrow range during the day, staying around DM1.49.

The French franc, which has been weakening over the last month, also showed only limited movement.

Against the dollar it closed at FF75.1185, compared with FF75.065 the previous day.

Against sterling it closed at FF77.8998, compared with FF77.7001 the previous day.

One reason for this lack of movement was a widespread expectation that the Bundesbank will lower the repo rate today, as a possible prelude to further German rate cuts.

Most observers think the reduction will be 10 basis points, although some think it could be more.

"I still think the repo rate will go down about 10 basis points, but given the market situation I wouldn't rule out the possibility of a stronger decline," another dealer said.

Against the dollar it closed at FF75.1185, compared with FF75.065 the previous day.

Against sterling it closed at FF77.8998, compared with FF77.7001 the previous day.

One reason for this lack of movement was a widespread expectation that the Bundesbank will lower the repo rate today, as a possible prelude to further German rate cuts.

Most observers think the reduction will be 10 basis points, although some think it could be more.

"I still think the repo rate will go down about 10 basis points, but given the market situation I wouldn't rule out the possibility of a stronger decline," another dealer said.

POUND SPOT FORWARD AGAINST THE POUND

Table with columns: Jan 30, Closing mid-point, Change on day, Bid/offer spread, Day's Mid, One month, Three months, One year, Bank of England rate.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Table with columns: Jan 30, Closing mid-point, Change on day, Bid/offer spread, Day's Mid, One month, Three months, One year, J.P. Morgan rate.

CROSS RATES AND DERIVATIVES

Table with columns: Jan 30, Bid, Offer, DM, FF, S, Y, Yen, etc.

EXCHANGE CROSS RATES

Table with columns: Jan 30, Bid, Offer, DM, FF, S, Y, Yen, etc.

UK INTEREST RATES

Table with columns: Jan 30, Over-night, 7 days, One month, Three months, Six months, One year.

EMU EUROPEAN CURRENCY UNIT RATES

Table with columns: Jan 30, Ecu, Rate, Change on day, % +/- from 1995, % spread, Div. ind.

BASE LENDING RATES

Table with columns: Bank Name, Rate, %

STERLING FUTURES (GBP) £125,000 per £1

Table with columns: Mar, Jun, Sep, Open, Last, Change, High, Low, Est. vol, Open Int.

STERLING EUROPEAN CURRENCY UNIT RATES

Table with columns: Mar, Jun, Sep, Open, Last, Change, High, Low, Est. vol, Open Int.

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STERLING EUROPEAN CURRENCY UNIT RATES

Table with columns: Mar, Jun, Sep, Open, Last, Change, High, Low, Est. vol, Open Int.

WORLD INTEREST RATES

Table with columns: January 30, Over night, One month, Three months, Six months, One year, Lomb. Vtr., Dis. rate, Repo rate.

THREE MONTH EUROPEAN CURRENCY UNIT RATES

Table with columns: Mar, Jun, Sep, Open, Last, Change, High, Low, Est. vol, Open Int.

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FAST 64 KBIT SATELLITE TECHNOLOGY

Advertisement for satellite technology, offering real-time data for US and European markets.

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Advertisement for Sovereign (Forex) Limited, offering foreign exchange services.

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FRANCHISING

Advertisement for franchising opportunities.

US \$100,000,000

Advertisement for a \$100 million investment opportunity.

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DIV TRUSTS SPLIT CAPITAL - Cont.

Table listing various dividend trusts and their financial details, including company names, share prices, and dividends.

OTHER INVESTMENT TRUSTS

Table listing other investment trusts and their financial details.

INVESTMENT COMPANIES

Table listing investment companies and their financial details.

LEISURE & HOTEL

Table listing leisure and hotel companies and their financial details.

LEISURE & HOTELS - Cont.

Table listing leisure and hotel companies (continued).

LIFE ASSURANCE

Table listing life assurance companies and their financial details.

MEDIA

Table listing media companies and their financial details.

PHARMACEUTICALS

Table listing pharmaceutical companies and their financial details.

RETAILERS, GENERAL

Table listing general retailers and their financial details.

RETAILERS, FOOD

Table listing food retailers and their financial details.

RETAILERS, TEXTILES & APPAREL

Table listing textile and apparel retailers and their financial details.

TELECOMMUNICATIONS

Table listing telecommunications companies and their financial details.

TOBACCO

Table listing tobacco companies and their financial details.

TRANSPORT

Table listing transport companies and their financial details.

WATER

Table listing water companies and their financial details.

AMERICANS

Table listing American companies and their financial details.

CANADIANS

Table listing Canadian companies and their financial details.

SOUTH AFRICANS

Table listing South African companies and their financial details.

OTHER FINANCIAL - Cont.

Table listing other financial companies (continued).

PAPER, PACKAGING & PRINTING

Table listing paper, packaging, and printing companies and their financial details.

PROPERTY

Table listing property companies and their financial details.

PROPERTY - Cont.

Table listing property companies (continued).

SUPPORT SERVICES - Cont.

Table listing support services companies (continued).

AM - Cont.

Table listing American companies (continued).

CANADIANS

Table listing Canadian companies.

SOUTH AFRICANS

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Advertisement for GOD (GOD UNTANGLES THE NET) with website URL http://www.god.co.uk and FIRECREST logo.

PHARMACEUTICALS - Cont.

Table listing pharmaceutical companies (continued).

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Table listing property companies.

PROPERTY - Cont.

Table listing property companies (continued).

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Table listing support services companies.

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GUIDE TO LONDON SHARE SERVICE

Price for the London Share Service... This service is available to companies whose shares are regularly traded in the London Stock Exchange... FT Five Annual Reports Service... FT Company Focus... FT Cityline... An international service is available for callers outside the UK...

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FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 673 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Table listing Bermuda (SIB Recognised) funds including Royal Bank of Canada O/S Fd Mgrs Ltd, The First Trust Global Fund, and various international equity and bond funds.

BERMUDA (REGULATED)**

Table listing Bermuda (Regulated) funds including various international equity and bond funds.

GUERNSEY (SIB RECOGNISED)

Table listing Guernsey (SIB Recognised) funds including various international equity and bond funds.

IRELAND (SIB RECOGNISED)

Table listing Ireland (SIB Recognised) funds including various international equity and bond funds.

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ISLE OF MAN (SIB RECOGNISED)

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Table listing Isle of Man (Regulated) funds including various international equity and bond funds.

JERSEY (SIB RECOGNISED)

Table listing Jersey (SIB Recognised) funds including various international equity and bond funds.

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LUXEMBOURG (SIB RECOGNISED)

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Handwritten note in Arabic script: "صندوق الاستثمار"

FT MANAGED FUNDS SERVICE

FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 878 4378 for more details.

Main table containing financial data for various funds, including columns for fund names, prices, and performance metrics. Includes sub-sections like 'OFFSHORE INSURANCES' and 'OTHER OFFSHORE FUNDS'.

Handwritten note in Arabic script: 'حساب من الاصلى'

LONDON STOCK EXCHANGE

MARKET REPORT

Interest rate hopes and bid talk help market rally

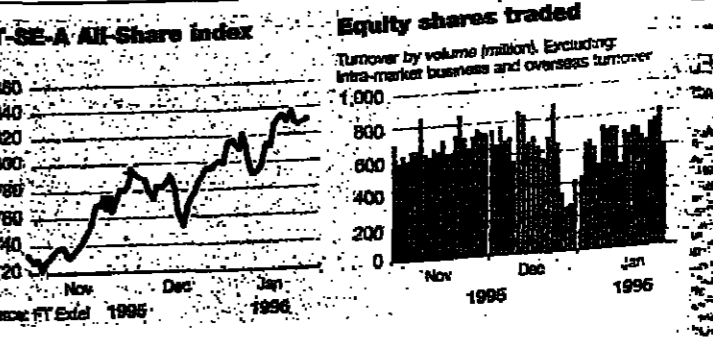
By Steve Thompson, UK Stock Market Editor
News of the Hanson group's plan to demerge into four separate businesses electrified the company's shares and helped arrest a worrying slide by a flagging UK market.

some dealers attributed to a hefty sell programme, but which others said had reflected increased concerns that the much hoped for reductions in interest rates in the US and Germany might not occur.

expected increase in US retail sales and a much weaker than expected consumer confidence index. The Footsie ended a volatile trading session a net 0.71 ahead at 3,735.3, while the FT-SE Mid 250 index continued its run of outperformance against the senior index, closing 6.6 higher at 4,085.7.

unusually heavy activity in the banks, National Grid and a number of big conglomerates. The banks continued to attract heavy selling pressure, with the mortgage/savings sector, featured by Lloyds TSB, Abbey National and the two Scottish banks, once again being roughly handled by market-makers.

climbed a further 33 points to break the 5,300 level. But with doubts about interest rates creeping in, and the rumoured programme selling affecting sentiment, the Footsie dropped back to record a fall of 20.7 over lunch.



Indices and ratios table with columns for Index Name, Value, Change, and Ratio. Includes FT-SE 100, FT-SE Mid 250, FT-SE All-Share, and various performance ratios.

Record trade for Hanson

Hanson chose a good time to revitalise investor perceptions when it revealed it was splitting into four units. Minutes after the announcement, the share price shot up some 15p - a very big move for the normally sluggish shares.

break-ups over the past, say they unlock shareholder value. Mr Jack L. Kelly of Goldman Sachs said: "ITT has gone from \$80 to \$130 in little over a year and AT&T went well. Investors like these splits."

Standard Chartered improved 6 to 61p on relief that it has finally sold its stockbroking arm. Also, takeover chatter failed to die away and HSBC, seen as a potential buyer, rose 2 1/2 to 110 1/2p - a new closing peak - with the help of a strong Hong Kong market.

a West Coast US utility revived takeover speculation in the UK electricity company sector. Rumours have focused on General Public Utilities, of the US, making an offer for Midlands Electricity. The latter, already at a healthy premium to the level of a previous bid, made by PowerGen (which was referred to the Monopolies and Mergers Commission), gained a further 13 at 381p.

Glaxo Wellcome jumped, with sentiment boosted by announcements from rivals on AIDS drug combinations. Merck, of the US, said its new treatment - Crixivan - worked better when combined with Glaxo's AZT and Epiriv. It said the triple combination therapy reduced levels of HIV infection after four months of treatment in about 85 per cent of patients.

appreciated 18 to close at 833p. Shares in Whitbread were in demand and they put on 9 at 697p. A story doing the rounds late yesterday suggested that the group was about to buy Forte's motorway service areas, Welcome Break, from Granada Group. Dealers said they expected an announcement any day now and they suggested a price of around £290m. Shares in Granada closed 3 firmer at 705p, while Forte ended the session at 341 1/2p, after going ex the special dividend.

In the rest of the sector, Scottish Newcastle gained 4 1/2 at 627p ahead of today's analysts visit to some of its operations. Volume was 2.9m. Talk that the group was planning to make a bid for leisure group Ladbroke was dismissed by analysts as "unlikely". Ladbroke closed a penny ahead at 179p.

cautious stance on Great Universal Stores, saying the market has got "over-excited over planned management changes". The shares lost 10 to 622p. Talk that Storehouse would purchase the purchase of Children's World from Boots continued to do the rounds yesterday. Shares in the former hardened 6 to 398p, while the latter eased a penny to 618p, on profit-taking.

Investment buying, a director buying share options and a strong US market combined to make Smebe a good market. Transport stock P&O moved forward 11 to 561p as the market continued to speculate about a firm disposal programme.

FUTURES AND OPTIONS table with columns for Index Name, Price, Change, and Volume. Includes FT-SE 100 Index Futures and Options.

MARKET REPORTERS table listing names and contact information for Peter John and Joel Kibizzo.

TRADING VOLUME table listing Major Stocks Yesterday with columns for Stock Name, Volume, and Change.

On the plus side, however, Hanson's old Imperial Tobacco arm could make an attractive sale proposition, as might the energy arm - considering the takeover enthusiasm among the regional electricity groups and Hanson's recent purchase of Eastern.

And US analysts, who have seen a wave of big league break-ups over the past, say they unlock shareholder value. Mr Jack L. Kelly of Goldman Sachs said: "ITT has gone from \$80 to \$130 in little over a year and AT&T went well. Investors like these splits."

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FT GOLD MINES INDEX table with columns for Index Name, Price, Change, and Volume. Includes Gold Mines Index and various regional indices.

National Bank Of Hungary U.S. \$100,000,000 Floating Rate Notes due 2000. Includes details on interest rates and coupon payments.

Wells Fargo & Company US\$200,000,000 Floating rate subordinated notes due 2000. Includes details on interest rates and coupon payments.

FT-SE Actuaries Share Indices The UK Series. Table showing performance metrics for various FT-SE indices.

Hourly movements table showing price changes for various FT-SE indices throughout the day.

U.S. \$300,000,000 Canadian Imperial Bank of Commerce Floating Rate Debenture Notes due 2084. Includes details on interest rates and coupon payments.

U.S. \$100,000,000 Allied Irish Bank Perpetual Floating Rate Notes. Includes details on interest rates and coupon payments.

Businesses for Sale section listing various companies and assets available for purchase.

Hourly movements table showing price changes for various FT-SE indices throughout the day.

Sakura Finance Asia Limited Mitsui Finance Asia Limited Guaranteed Floating Rate Notes 1997. Includes details on interest rates and coupon payments.

ANZ Bank Australia and New Zealand Banking Group Limited Floating Rate Notes due 1997. Includes details on interest rates and coupon payments.

Businesses for Sale section listing various companies and assets available for purchase.

Hourly movements table showing price changes for various FT-SE indices throughout the day.

OFFSHORE COMPANIES section listing various offshore investment opportunities.

Businesses for Sale section listing various companies and assets available for purchase.

Hourly movements table showing price changes for various FT-SE indices throughout the day.

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CITY INDEX and Argus Fundamentals sections providing market analysis and commodity price information.

Businesses for Sale section listing various companies and assets available for purchase.

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NYSE COMPOSITE PRICES

Table of NYSE Composite Prices listing various stocks with columns for stock name, price, and change.

NASDAQ NATIONAL MARKET

Table of NASDAQ National Market listing various stocks with columns for stock name, price, and change.

AMEX COMPOSITE PRICES

Table of AMEX Composite Prices listing various stocks with columns for stock name, price, and change.

Advertisement for Sweden featuring the text 'Have your FT hand delivered in Sweden' and 'Gain the edge over your competitors by having the Financial Times delivered to your home or office every working day.'

Continuation of NASDAQ National Market listing from the previous page, including various stock symbols and prices.

AMERICA

Hopes for US rate reduction lift indices

Wall Street

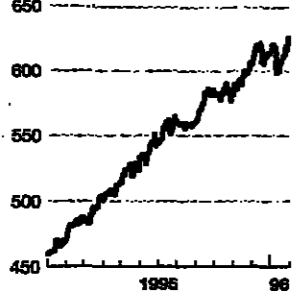
Hopes that the Federal Reserve would cut interest rates today sent US shares further into record territory in midday trading yesterday, writes Lisa Branstetter in New York.

In the early afternoon, the Dow Jones Industrial Average was more than 50 points higher, triggering the "down-ticker rule" that restricts program buying.

By 1 pm, however, the index was off the session's high with a gain of 47.69 at 5,352.67. The Standard & Poor's 500 was 4.29 higher at 626.42 and the American Stock Exchange composite rose 2.26 to 549.92. The technology-rich Nasdaq composite was

US

S&P 500 Composite



Source: FT Data

up 7.89 at 1,050.40. NYSE volume was 263m shares.

Weak economic data added to the growing consensus that the Fed would ease monetary policy at the conclusion of its two-day Open Market Committee meeting that began yesterday. Retail sales rose 0.3 per cent in December, making 1995 the worst year for retailers since 1981, and consumer confidence fell sharply in January, dampening prospects that sales would rebound in the near term.

Hopes for looser monetary policy led to another day of gains for cyclical shares and

Mexico loses gain

Mexico City reversed an early gain and was lower in thin trade before midday as investors took profits and waited for signs from the money market on interest rates.

The IPC index was up 33.73 at 3,064.26. Volume was weak at 21m shares.

Dealers remarked that trading had really slowed down in the past two days. Banorte, the financial group, surrendered 4.4 per cent after reporting a slightly lower 1995 net profit compared with the previous year.

S African golds rejuvenated

Johannesburg finished mixed after a firmer bullion price rejuvenated gold shares, but industrials lost ground on uncertainty over short-term prospects.

Dealers noted that industrials had fallen throughout the day, consolidating after last week's strong run, and knocked by Monday's poor December M3 money supply figure, which dashed hopes of an early interest rate cut.

The overall index was down 7.2 to 6,930, industrials shed 25.3 to 8,667.3 and golds

EUROPE

Paris rises above 2,000 after banks cut rates

The cut in base lending rates and a savings rate gave PARIS a kick start and the CAC-40 index closed above the 2,000 level for the first time since last May.

Mr Simon Hopkins at Nomura in Paris said that there was heavy US institutional buying during the afternoon, which could possibly be put down to programme trading. The interest rate picture was the one for buying, he added, and there was a feeling that the cut in the savings rate could now encourage domestic investors to re-enter the equity market.

The index rose 22.45 to 2,003.13, just off an intra-day high of 2,004.43. Turnover reflected the positive interest rate picture, with the CAC-40 up 1.7 per cent and its counterpart index of consumer goods companies rose 0.7 per cent.

Also boosting the Dow's performance was a healthy earnings report from General Motors - the largest automobile manufacturer in the US and a component of the Dow. Shares in GM added 1/4 or 3 per cent to \$54 after the company reported fourth quarter earnings of \$1.96 a share, 67 cents a share ahead of the mean forecast from analysts.

Other rising cyclical shares in the Dow included Du Pont up 1/4 at \$76.4, Aluminum Company of America, 1/4 stronger at \$56, and Union Carbide, which moved ahead 1/4 to \$41.5.

The Dow also received a boost from a rise in the price of Merck, on the heels of an announcement that it had made a substantial advance in the battle against Aids with its drug Crixivan. Studies found that the drug reduced that levels of HIV, the virus that causes Aids, when taken with two other Aids drugs, AZT and DDI. Shares in the drug company jumped 1/4 at \$70.

American Depository Receipts of Glaxo Wellcome, which makes AZT, climbed 1/4 to \$28.75, and Bristol-Myers Squibb, which makes DDI, added 3/4 at \$89.4.

Canada

Toronto drove further into record territory, powered by an influx of retirement fund cash, higher gold prices and falling rates. The TSE-300 Composite index was 37.12 higher by noon at 4,975.33 in heavy volume of 50.9m shares as investors also kept a close eye on the US Federal Open Market Committee meeting for any sign of a move on interest rates that might emerge.

Telesis receded 3 per cent on profit-taking, having put on gains in the next few sessions after Grupo Alameda, which owns Telesis stock, restructured its debt.

SANTIAGO recovered from early losses on bargain hunting by foreign investors. The selective IPSA index, which had fallen 3 per cent over the last week, finished the first round down 0.7 per cent at 93.89. The general IGPA index slipped 0.3 per cent to 5,640.07 points in volume of 3.6bn pesos.

On the gold board, gaining issues included Vaal Reefs, up R9 to R379, Gold Fields, R3 ahead at R133, and Freegold, which firming R1.25 to R38.75.

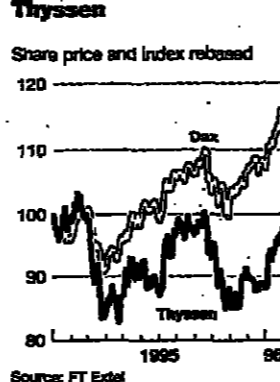
The heavily weighted consumer goods index, the African Breweries skidded R2 to R137.50, while Remgro receded 60 cents to R40.25 and pulp and paper producer Sappi slipped R1.25 to R49.50.

Anglo American relinquished 50 cents to R271.50, with its decline tempered by the gains in gold shares.

Other speculative shares did better, with Takara Shuzo up Y9 to Y1,330 and Rythm Watch, the day's most active stock, rising Y16 to Y480.

Bank stocks improved, Sumitomo Bank firming Y10 to Y2,040. Brokers were also higher, with Nomura Securities

Thyssen



Source: FT Data

to turn the corner, they remarked. Rate-sensitive banks and insurers were among the day's best performers. S-E Banken climbed SKr2 to SKr32 and Handelsbanken gained SKr3 to SKr129.5. Skandia, the insurer, rose SKr2 to SKr174.

Electrolux jumped SKr4 to SKr299 after presenting stronger than expected annual results for 1995. FRANKFURT was saved by a round of buying towards the close. The Dax finished 10.26 down at 2,435.79, while the Ibis pushed higher to end at 2,456.09.

Deutsche Bank rose in early floor trading to a new 52-week peak of DM7.70 after the bank said it would pay a higher dividend for 1995, before setting back to end 5 ppts lower at DM7.35. In the Ibis the bank made 87 ppts to DM73.57.

Thyssen, the steel and engineering group, slipped DM3.60 to DM256, and then rose to DM285.40 in the Ibis in line with the market, after its profits forecast for the year to the end of September 1996. Analysts were expected to downgrade earnings estimates, but most were waiting until a meeting with the company on Friday before saying more. ZURICH recouped 1.2 per

to reviving flagging economic growth.

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FT-SE Actuaries Share Indices

Table with columns for Jan 30, Jan 29, Jan 28, Jan 27, Jan 26, Jan 25, Jan 24, Jan 23. Rows for FT-SE Actuaries 100, FT-SE Actuaries 200, and New 1000 (part-time, high/low).

THE EUROPEAN SERIES

Table with columns for Jan 30, Jan 29, Jan 28, Jan 27, Jan 26, Jan 25, Jan 24, Jan 23. Rows for FT-SE Europe 100, FT-SE Europe 200, and New 1000 (part-time, high/low).

cent in volatile trade, with a firming dollar, the strong start on Wall Street and rising bond futures providing support. The SMI index picked up 38.6 to 3,236.8.

Credit Suisse Research noted that the equity market had fallen almost 7 per cent since its peak on January 4, rocked by the sudden fall in yields in bonds. However, it believed that an expected calming of the bond market would halt the stock price slide and allow equities to resume an upward trend during the first quarter of the year.

Financials benefited from the recovery in bond futures. UBS bearers, very volatile recently, picked up SFr32 to SFr127.

The insurance sector, particularly hard hit and losing about 10 per cent of its value since the start of the year, also put in a strong performance. Swiss Re jumped SFr42 or 3.5

would permit the Bank of Italy to cut interest rates. IMI was up L247 to L10,546, while BCI gained L56 to L3,603 and Mediobanca moved forward L287 to L10,832.

Eni, the energy giant, picked up L78 to L5,920 on further strong foreign buying.

Telecoms also found foreign demand, with Telecom Italia up L58 to L2,746 and Stet gaining L75 to L4,747.

Against the trend, Rinascente, the retailer, lost L73 to L10,056 after the group released 1995 sales figures. WARSAW eased slightly, having set three consecutive 52-week highs and breaking the 10,000 barrier at the start of the week. The Wig index lost 0.1 per cent to 10,171.5 as turnover slipped 20 per cent to 180.8m zlotys.

VIENNA made further progress as the ATX index posted a rise of 5.55 at 1,078.5 after dipping to a low of 1,063.92. The leading gainer was Austria Mikro Systeme, up Sch55 to Sch1,615 but off a high of Sch1,630.

OMV added Sch2 to Sch97 and said it expected 1995 pre-tax profits to exceed Sch2bn, as against 1994's Sch899m.

Banks were in demand, partially on hopes that a clarification of the political scene

ASIA PACIFIC

Growing hopes for economic recovery support Nikkei

Tokyo

Another overnight record-breaking rally on Wall Street combined with hopes for a Japanese economic recovery, supported investor confidence and lifted the Nikkei, writes Emilio Terazono in Tokyo.

The Nikkei 225 average put on 133.24 at 20,722.44, after moving between 20,602.25 and 20,796.89. The third consecutive rise in Japanese industrial production figures, released on Monday, raised hopes of a steady economic recovery. Banks, which had been sold on fears of a prolonged debate over the housing loan liquidation, were bought and led the rise.

Volume was 570m shares, against 516.8m. The Topix index of all first section stocks rose 4.93 to 1,588.14 and the Nikkei 300 added 0.79 to 296.58. Gainers led declines by 701 to 397, with 172 issues higher.

In London the ISE/Nikkei 50 index rose 3.75 to 1,400.84. Speculative stocks again led activity. Traders said individuals targeted issues which were free from the influence of foreign and institutional trading. Brokerage dealers are also joining the fray in search of short-term profits.

A local broker, meanwhile, noted that issues owned by Norinchukin, the agricultural financial institution which extended a large amount of loans to the housing loan companies, were active. This reflected speculation that Norinchukin might try to support the prices of such shares to take profits.

In spite of this, fishing company Kyokuyo, in which Norinchukin has a 43 per cent stake, fell Y20 to Y850. Other Norinchukin owned companies lost ground, including Nippon Kakoh Seiki, off Y36 at Y654.

Other speculative shares did better, with Takara Shuzo up Y9 to Y1,330 and Rythm Watch, the day's most active stock, rising Y16 to Y480.

Bank stocks improved, Sumitomo Bank firming Y10 to Y2,040. Brokers were also higher, with Nomura Securities

ties putting on Y30 to Y2,230. The dollar's stability supported export-oriented stocks.

Chrysler climbed higher, with Toyota Motor up Y10 to Y2,300. High-technology issues also gained ground: Sony appreciated Y190 to Y6,430.

In Osaka, the OSE average improved 53.11 to 22,118.85 in volume of 154.9m shares.

Roundup

HONG KONG closed at a two-year high on a late surge driven by soaring futures and New York's record close overnight. The Hang Seng index climbed 142.49 or 1.3 per cent to 11,201.46 in turnover that picked up to HK\$6.5bn.

Banks, especially smaller ones, were stronger after Ka Wah Bank reported positive earnings and larger than expected inner reserves under new disclosure rules on Monday. Ka Wah was up 15 cents at HK\$2.75. Bank of East Asia advanced HK\$1.40 to HK\$32.80, aided also by talk of a covered warrant issue, and HSBC gained HK\$1 at HK\$126.

Sun Hung Kai Properties jumped HK\$2.25 to HK\$72.25 and New World was ahead 70 cents at HK\$37.70.

Recently underperforming utilities bounced. HK Electric rose 45 cents to HK\$26.30 and China Gas moved ahead 30 cents to HK\$13.55.

TAIPEI saw a wave of late buying lift share prices after the island's radio reported that the Chinese Premier Li Peng had not made any mention of a timetable for reunification in a speech delivered yesterday in Beijing.

The weighted index, which had fallen sharply on Monday on worries about Chinese intentions towards the island, rose 11.50 or 2.4 per cent to 4,973.90. Turnover came to HK\$2.75. Bank of East Asia advanced HK\$1.40 to HK\$32.80, cents or 3 per cent at HK\$32.5.

SINGAPORE rebounded from early losses on bargain hunting, with some UK funds said to be among the buyers. The Straits Times Industrial index ended 0.39 off at 2,423.68, but up from a low of 2,410.02. Amcol was actively traded,

picking up 8 cents to S\$4.22. After the close of trading, the trading and property group said that its former managing director, Kang Hwi Wah, had agreed to sell 8.7 per cent of the company to the Transmarco chief, Sukanto Sia, at S\$4.50 a share.

KUALA LUMPUR recovered from a weak morning, when interest rate worries drove prices down, as selective bargain hunting by both institutions and retailers nudged prices higher. The composite index finished 11.63 ahead at 1,052.88.

Philaeo jumped 75 cents to M\$10.30 after announcing a three-for-one bonus proposal. Iridis gained 6 cents at M\$8.94 on news that it had been awarded a new large forest concession in Sabah.

After their recent pause, second liners were again driven up by speculative buying. Pegi rose 21 cents to M\$2.95 on revived rumours of an asset injection and takeover.

SEOUL closed firmer in relatively active trade after late profit-taking wiped out the bulk of earlier gains. The composite index ended 23 ahead at 875.45 after touching 881.60.

The announcement that industrial output growth continued to slow in December was in line with forecasts and had little immediate impact on the market.

Chong Gu Construction went the day's limit down, weakening Won1,000 to Won1,500, on news that it had been sued by would-be residents of one of its Seoul apartment projects over alleged excessive charges.

Most preferred stocks, which accrue higher dividend payments than common shares, rose as local media reported details of new rules requiring companies to base their dividend payouts on market share prices instead of par values.

BANGKOK rallied 1.3 per cent as investors bought leading finance and bank shares. The SET index moved up 16.89 to 1,393.34 on turnover of Bt7.6bn. Krung Thai Bank was the most active issue and rose Bt5 to Bt130.

SYDNEY was defeated by profit-taking as the All Ordinaries index lost 13.5 to 2,365.8. Volume totalled 286.2m shares worth A\$545.8m, with declines leading rises by 463 to 391. Advance Bank gained 35 cents at A\$11.80 after a high of A\$12.00 following results. Bro-

kers said investors sold National Australia Bank and ANZ to buy Advance.

NAB made 5 cents to A\$12.82 after a high of A\$12.37, while ANZ shed 10 cents to A\$6.73.

The gold shares index fell 38.9 to 2,157.2, with Gold Mines of Kalgoorlie down 3 cents at A\$1.47 and Newcrest Mining 23 cents cheaper at A\$6.35.

MANILA failed to reverse early selling of leading issues as fears of a possible rise in inflation triggered profit-taking. The composite index slipped 18.20 to 2,850.38, up from the session's low of 2,844.20, in volume of 2.8bn shares worth 1.8bn pesos.

BOMBAY was propelled higher by heavy short-covering, triggered by large short sold positions, and the BSE-30 index rose 37.74 to 2,909.82.

TORRAS PAPEL advertisement for Grupo Papelero Torras. Includes text: 'GRUPO PAPELERO TORRAS would like to express their appreciation to the banks who participated in rescheduling the following long-medium term facilities:'. Lists facilities A-E and provided by banks like Societe Nationale de Credit a l'Industrie, Generale Bank, etc.

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Table with columns for National and Regional Markets, Monday January 29 1996, and Friday January 26 1996. Rows list various countries and their respective stock indices.

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